

Lakeside Village Homeowners Association

Financial Statements and
Supplementary Information

For the Year Ended December 31, 2008

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Lakeside Village Homeowners Association
Federal Way, Washington

We have audited the accompanying balance sheet of Lakeside Village Homeowners Association as of December 31, 2008, and the related statements of revenues, expenses, and changes in fund balances, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Lakeside Village Homeowners Association as of December 31, 2008, 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.

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements, which is presented as unaudited supplementary information behind the Notes to Financial Statements, 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 for placing the basic financial statements 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.

Stanford, Munko & Co., PLLC

Certified Public Accountants

October 13, 2011

Lakeside Village Homeowners Association

Balance Sheet
December 31, 2008

<u>Assets</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash	\$ 10,443	\$ 10,313	\$ 20,756
Assessments receivable, net	6,423		6,423
Unexpired insurance	5,782		5,782
Total assets	\$ <u>22,648</u>	\$ <u>10,313</u>	\$ <u>32,961</u>
<u>Liabilities and Fund Balances</u>			
Accounts payable	\$ 7,752	\$	\$ 7,752
Assessments received in advance	5,736		5,736
Total liabilities	\$ 13,488	\$	\$ 13,488
Fund balances	9,160	10,313	19,473
Total liabilities and fund balances	\$ <u>22,648</u>	\$ <u>10,313</u>	\$ <u>32,961</u>

See accompanying notes to financial statements.

Lakeside Village Homeowners Association

Statement of Revenues, Expenses
and Changes in Fund Balances
For the Year Ended December 31, 2008

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues:			
Member assessments	\$ 221,000	\$ 125,000	\$ 346,000
Other member charges	10,760		10,760
Interest		218	218
	<u>231,760</u>	<u>125,218</u>	<u>356,978</u>
Total revenues	\$ 231,760	\$ 125,218	\$ 356,978
Expenses:			
Utilities:			
Water and sewer	\$ 28,226	\$	\$ 28,226
Garbage	22,479		22,479
Electricity and natural gas	8,708		8,708
Telephone	431		431
Cable television	26,418		26,418
	<u>86,262</u>	<u></u>	<u>86,262</u>
Maintenance:			
General repairs and maintenance	\$ 57,146	\$	\$ 57,146
Grounds and landscaping	30,822		30,822
Janitorial and cleaning	7,109		7,109
Pool maintenance	4,951		4,951
Pest control	4,224		4,224
Fire extinguisher service	330		330
Major repairs		197,433	197,433
	<u>104,582</u>	<u>197,433</u>	<u>302,015</u>
General and administrative:			
Management fees	\$ 18,888	\$	\$ 18,888
Insurance	24,225		24,225
Professional services	9,910		9,910
Uncollectible accounts	29,550		29,550
Office and miscellaneous	3,162	10	3,172
	<u>85,735</u>	<u>10</u>	<u>85,745</u>
Total expenses	\$ 276,579	\$ 197,443	\$ 474,022
Excess (deficit) of revenues over expenses	\$ (44,819)	\$ (72,225)	\$ (117,044)
Fund balances at beginning of year	14,325	122,192	136,517
Interfund transfers	39,654	(39,654)	
	<u>9,160</u>	<u>10,313</u>	<u>19,473</u>
Fund balances at end of year	\$ 9,160	\$ 10,313	\$ 19,473

See accompanying notes to financial statements.

Lakeside Village Homeowners Association

Statement of Cash Flows
For the Year Ended December 31, 2008

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Excess (deficit) of revenues over expenses:	\$ (44,819)	\$ (72,225)	\$ (117,044)
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in assets:			
Assessments receivable, net	15,427		15,427
Unexpired insurance	545		545
Increase (decrease) in liabilities:			
Accounts payable	(1,522)	(26,011)	(27,533)
Assessments received in advance	(828)		(828)
Net cash provided (used) by operating activities	\$ (31,197)	\$ (98,236)	\$ (129,433)
Cash flows from financing activities:			
Interfund transfers	\$ 39,654	\$ (39,654)	\$
Net cash provided (used) by financing activities	\$ 39,654	\$ (39,654)	\$
Net increase (decrease) in cash	\$ 8,457	\$ (137,890)	\$ (129,433)
Cash at beginning of year	1,986	148,203	150,189
Cash at end of year	\$ 10,443	\$ 10,313	\$ 20,756
Supplemental disclosure:			
Income taxes paid	\$ 0	\$ 0	\$ 0

See accompanying notes to financial statements.

Lakeside Village Homeowners Association

Notes to Financial Statements December 31, 2008

Note 1 - Nature of Organization:

Lakeside Village Homeowners Association is a statutory homeowner association incorporated as a nonprofit organization in the state of Washington. The Association is responsible for the operation and maintenance of the common property of Lakeside Village which consists of seventy eight residential units located in Federal Way, Washington. The Association is subject to certain provisions of the Washington Homeowners' Associations Act, RCW Chapter 64.38.

Note 2 - Date of Management's 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 the financial statements were available to be issued.

Note 3 - Summary of Significant Accounting Policies:

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 according to their nature and purpose: The operating fund is used to account for financial resources available for the general operations of the Association. The replacement fund is used to accumulate financial resources designated for future major repairs and replacements.

Cash and Cash Equivalents:

The Association recognizes cash, money market funds and certificates of deposit with original maturity dates of less than 90 days as cash and cash equivalents. The Association maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts.

Member Assessments:

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The annual budget and member assessments are determined by the board of directors, within certain restrictions. The Association uses the allowance method to account for uncollectible assessments receivable. The Association retains excess operating funds at the end of the year, if any, for use in future periods.

Property and Equipment:

The Association does not capitalize replacements and improvements to the real property as the Association does not have the right to sell the common areas and retain the proceeds. The Association capitalizes real property to which it has title or other evidence of ownership. If any assets are capitalized, they are recorded at cost and depreciated over its estimated useful life using the straight line method of depreciation. There is no capitalized personal property at the end of the year.

Lakeside Village Homeowners Association

Notes to Financial Statements (Continued)
December 31, 2008

Note 3 - Summary of Significant Accounting Policies (Continued):

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Note 4 - Future Major Repairs and Replacements:

The Association's governing documents require funds to be accumulated for future repairs and replacements. Accumulated funds are held in a separate account and are generally not available for operating purposes.

The Association commissioned a study by professional reserve analysts in 2008 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimate of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated costs 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, the Association has the right, subject to membership approval, to increase regular assessments, to levy special assessments, or it may delay major repairs and replacements until funds are available. The Association budgeted \$125,000 and funded \$47,000 in 2008.

Note 5 - Assessments Receivable - Net:

As of December 31, 2008, the Association had assessments receivable of \$35,973, which are reported net of an allowance for doubtful accounts of \$29,550. At December 31, 2008, there were fifteen accounts in the amount of \$26,553 which were over 90 days delinquent. The Association has the authority to assess late charges and, if necessary, place liens on properties of members whose assessments are delinquent.

Note 6 - Federal Income Taxes:

The Association may elect to be taxed as a regular corporation or as a homeowners association under Internal Revenue Code Section 528. For the year ended December 31, 2008 the Association elected to be taxed as a homeowners association. Under that election, the Association is taxed only on its nonexempt function income, such as interest income, at homeowner association tax rates. Exempt function income, such as member assessments, is not taxable. The Association's tax returns are generally subject to examination by taxing authorities for three years after the returns are filed.

Note 7 - Commitments:

The Association has various contracts for services including but not limited to management and various maintenance services.

Lakeside Village Homeowners Association

Notes to Financial Statements (Continued)
December 31, 2008

Note 8 - Management Company Transactions:

The management company is reimbursed for various administrative costs incurred on behalf of the Association.

Note 9 - Risks and Uncertainties:

The Association's assessments receivable represents payments due from delinquent members. The Association anticipates collecting these balances through its collection efforts, including filing liens and legal actions against these members. The collection of these amounts will be affected by the foreclosure of liens superior to the lien by the Association such as mortgage lien holders, delinquent property tax liens, bankruptcies by the members, etc.

Supplementary Information

Lakeside Village Homeowners Association

Supplementary Information on Future
Major Repairs and Replacements - Unaudited
December 31, 2008

The Association commissioned a study by professional reserve analysts in 2008 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study and have not been revised since that date. Funding requirements consider an annual inflation rate of three percent and an interest rate of three percent, net of taxes, on amounts funded for future major repairs and replacements.

The following information is based on the study and presents significant information about the components of common property. The information presented is only an excerpt from the complete study.

See independent auditors' report.

3- Minute Executive Summary

Association: Lakeside Village **Assoc. #: 13297-1**
Location: Federal Way, WA
of Units: 78
Report Period: January 1, 2009 through December 31, 2009

Results

Projected Starting Reserve Balance:	\$25,948
Fully Funded Reserve Balance:	\$1,383,580
Average Reserve Deficit (Surplus) Per Unit:.....	\$17,406
Percent Funded:	1.9%
Recommended 2009 Monthly Reserve Contribution:.....	\$11,640
Recommended Special Assessment each year 2009-2013:.....	\$156,000
Most Recent Reserve Contribution Rate:.....	\$10,417

Economic Assumptions:

Net Annual "After Tax" Interest Earnings Accruing to Reserves.....3.00%
 Annual Inflation Rate3.00%

- This is a "Full" Reserve Study, based on our site inspection on April 12, 2008 and meets all requirements of chapter 64.34 RCW Article 3, Section 2. This Reserve Study was prepared by, or under the supervision of, a credentialed Reserve Specialist (RS).
- Your Reserve Fund is 1.9% Funded. This represents a weak position, well below the 70-100% level where associations typically enjoy fiscal stability with relatively low risk of special assessment and/or deferred maintenance.
- Based on this starting point, your anticipated future expenses, and your historical Reserve contribution rate, our recommendation is to implement a multi-year special assessment of \$156,000 in each of the years 2009 thru 2013 and increase your Reserve contributions to \$11,640 with annual inflation offsetting increases thereafter.
- See photo pages for detailed component information and the basis of our assumptions. Your multi-year Funding Plan is designed to gradually bring you to the 100% level, or "Fully Funded".

Table 1: Executive Summary

13297-1

# Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Average Cost	Future Average Cost
102 Concrete/Curb - Repair/Replace	2	1	\$5,000	\$5,150
109 Elevated Decks - Repair/Replace (a)	30	0	\$45,000	\$109,227
109 Elevated Decks - Repair/Replace (b)	30	1	\$67,500	\$69,525
109 Elevated Decks - Repair/Replace (c)	30	2	\$67,500	\$71,611
109 Elevated Decks - Repair/Replace (d)	30	3	\$67,500	\$73,759
109 Elevated Decks - Repair/Replace (e)	30	29	\$67,500	\$159,068
110 Elevated Decks - Clean/Seal (a)	5	5	\$5,760	\$6,677
110 Elevated Decks - Clean/Seal (b)	5	6	\$8,640	\$10,317
110 Elevated Decks - Clean/Seal (c)	5	7	\$8,640	\$10,626
110 Elevated Decks - Clean/Seal (d)	5	8	\$8,640	\$10,945
110 Elevated Decks - Clean/Seal (e)	5	4	\$8,640	\$9,724
113 Wood Deck - Replace	20	19	\$4,250	\$7,452
114 Wood Rail - Repair/Replace	6	0	\$7,000	\$8,358
116 Wood Bridge - Repair/Replace	30	6	\$7,840	\$9,361
201 Asphalt - Resurface	36	7	\$128,700	\$158,285
202 Asphalt - Seal/Repair	4	3	\$21,238	\$23,207
320 Pole Lights - Replace (a)	30	2	\$13,750	\$14,587
320 Pole Lights - Replace (b)	40	11	\$19,250	\$26,647
324 Exterior Lights - Replace	18	6	\$9,100	\$10,866
403 Mailboxes - Replace	30	1	\$8,000	\$8,240
410 Garbage Enclosures - Replace	18	6	\$11,000	\$13,135
440 Storage Sheds - Remove	N/A	5	\$2,500	\$2,898
502 Chain Link Fence - Replace	40	5	\$6,400	\$7,419
503 Goose Fence - Replace	40	1	\$6,000	\$6,180
505 Wood Fence - Replace	20	3	\$34,618	\$37,827
605 Indoor/Outdoor Carpet - Replace	12	1	\$6,750	\$6,953
606 Traffic Coating - Seal	10	3	\$32,500	\$35,514
700 Entry/Utility Doors - Replace	1	0	\$3,200	\$3,296
901 Flooring - Replace	10	1	\$4,200	\$4,326
903 Furniture - Replace	10	1	\$3,500	\$3,605
904 Kitchenette - Refurbish	10	1	\$5,000	\$5,150
909 Bathroom - Refurbish	20	5	\$6,000	\$6,956
910 Rooms - Remodel	10	1	\$2,500	\$2,575
1109 Wood Fence - Seal/Paint	4	3	\$8,520	\$9,310
1110 Interior Surfaces - Refinish	10	1	\$5,000	\$5,150
1116 Exterior Surfaces - Clean/Paint (a)	6	0	\$75,360	\$89,984
1116 Exterior Surfaces - Clean/Paint (b)	6	5	\$40,500	\$46,951
1118 Exterior Surfaces - Repair/Replace	6	0	\$12,500	\$14,926
1120 Windows/Glass Doors -Replace	36	6	\$585,000	\$698,521
1200 Pool Deck - Resurface	36	12	\$24,000	\$34,218
1201 Pool Furniture - Replace	6	0	\$2,500	\$2,985
1202 Pool - Resurface	12	0	\$13,000	\$18,535
1203 Spa - Refurbish	8	0	\$5,000	\$6,334
1204 Pool - Retile	24	0	\$3,000	\$6,098
1208 Pool Heater - Replace	10	7	\$4,500	\$5,534
1209 Spa Heater - Replace	10	2	\$4,000	\$4,244
1214 Pool Fence - Replace	36	36	\$7,500	\$21,737

Table 1: Executive Summary

13297-1

# Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Average Cost	Future Average Cost
1303 Comp Shingle Roof - Replace (a)	25	1	\$63,750	\$65,663
1303 Comp Shingle Roof - Replace (b)	25	21	\$187,500	\$348,805
1310 Gutters/Downspouts-Repair/Replace	42	8	\$39,000	\$49,404
1321 Chimney Caps/Covers - Replace	30	1	\$67,500	\$69,525
1402 Entry Sign - Replace	20	5	\$5,000	\$5,796
1609 Tennis Court - Repair/Resurface	10	0	\$9,000	\$12,095
1610 Tennis Court Fence - Replace	40	10	\$9,360	\$12,579
1807 Drainage/Storm System - Replace	N/A	0	\$10,300	\$0
1812 Electrical - Repair/Replace	N/A	4	\$48,000	\$54,024
1901 Landscape - Refurbish	5	0	\$10,000	\$11,593
1904 Bark - Refurbish	2	0	\$10,000	\$10,609
1922 Reserve Study WSV	3	2	\$1,860	\$1,973
59 Total Funded Components				

Note: a Useful Life of "N/A" means a one-time expense, not expected to repeat.
Cross reference component numbers with photographic inventory appendix.