

Lakeside Village Homeowners Association

Financial Statements and
Supplementary Information

For the Year Ended December 31, 2011

STANFORD, MUNKO & Co., P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS
4250 8TH AVE NW, SUITE 200
SEATTLE, WASHINGTON 98107-4513
TELEPHONE (206) 283-1627
FAX (206) 283-9761

DAVID A. MUNKO, C.P.A.
FRED L. LINTOW, C.P.A.
JAMES H. POWERS, C.P.A.
BRIAN J. BOTNEN, C.P.A.
CHRIS J. SULLIVAN, C.P.A.
ANTHONY MUNKO, C.P.A.
SUSAN J. PAWLICKI, C.P.A.
JAMES A. PULSIFER, C.P.A.

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, 2011, 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, 2011, 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

December 13, 2012

Lakeside Village Homeowners Association

Balance Sheet
December 31, 2011

<u>Assets</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash	\$ 6,516	\$ 40,105	\$ 46,621
Assessments receivable - net	36,568		36,568
Unexpired insurance	<u>18,727</u>		<u>18,727</u>
Total assets	\$ <u>61,811</u>	\$ <u>40,105</u>	\$ <u>101,916</u>
 <u>Liabilities and Fund Balances</u>			
Accounts payable	\$ 8,451	\$	\$ 8,451
Assessments received in advance	11,940		11,940
Insurance payable	<u>5,572</u>		<u>5,572</u>
Total liabilities	\$ 25,963	\$	\$ 25,963
Fund balances	<u>35,848</u>	<u>40,105</u>	<u>75,953</u>
Total liabilities and fund balances	\$ <u>61,811</u>	\$ <u>40,105</u>	\$ <u>101,916</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, 2011

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues:			
Member assessments	\$ 252,289	\$ 112,565	\$ 364,854
Other charges	25,239		25,239
Interest		106	106
	<u>277,528</u>	<u>112,671</u>	<u>390,199</u>
Total revenues	\$ 277,528	\$ 112,671	\$ 390,199
Expenses:			
Utilities:			
Water and sewer	\$ 33,287	\$	\$ 33,287
Garbage	26,263		26,263
Electricity and natural gas	5,246		5,246
Telephone	450		450
Cable television	33,404		33,404
	<u>98,650</u>	<u></u>	<u>98,650</u>
Maintenance:			
General repairs and maintenance	\$ 28,794	\$	\$ 28,794
Grounds and landscaping	25,760		25,760
Janitorial and cleaning	7,350		7,350
Pool and spa	6,518		6,518
Pest control	3,931		3,931
Fire extinguisher service	148		148
Major repairs	39,167	86,860	126,027
	<u>111,668</u>	<u>86,860</u>	<u>198,528</u>
General and administrative:			
Management fees	\$ 17,638	\$	\$ 17,638
Insurance	40,682		40,682
Professional services	11,971		11,971
Uncollectible accounts	10,496		10,496
Office and miscellaneous	2,498		2,498
	<u>83,285</u>	<u></u>	<u>83,285</u>
Total expenses	\$ 293,603	\$ 86,860	\$ 380,463
Excess of revenues over expenses	\$ (16,075)	\$ 25,811	\$ 9,736
Fund balances at beginning of year	<u>51,923</u>	<u>14,294</u>	<u>66,217</u>
Fund balances at end of year	\$ <u>35,848</u>	\$ <u>40,105</u>	\$ <u>75,953</u>

See accompanying notes to financial statements.

Lakeside Village Homeowners Association

Statement of Cash Flows
For the Year Ended December 31, 2011

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Excess of revenues over expenses:	\$ (16,075)	\$ 25,811	\$ 9,736
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in assets:			
Assessments receivable - net	(17,793)		(17,793)
Unexpired insurance	(2,161)		(2,161)
Increase (decrease) in liabilities:			
Accounts payable	1,309		1,309
Assessments received in advance	5,110		5,110
Insurance payable	5,572		5,572
Net cash provided (used) by operating activities	\$ <u>(24,038)</u>	\$ <u>25,811</u>	\$ <u>1,773</u>
Net increase (decrease) in cash	\$ (24,038)	\$ 25,811	\$ 1,773
Cash at beginning of year	<u>30,554</u>	<u>14,294</u>	<u>44,848</u>
Cash at end of year	\$ <u><u>6,516</u></u>	\$ <u><u>40,105</u></u>	\$ <u><u>46,621</u></u>

See accompanying notes to financial statements.

Lakeside Village Homeowners Association

Notes to Financial Statements December 31, 2011

Note 1 - Nature of Organization:

Lakeside Village Homeowners Association is a statutory homeowner association incorporated as a nonprofit organization in the state of Washington on December 15, 2004. The Association is responsible for the operation and maintenance of the common property of Lakeside Village which consists of 78 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.

Lakeside Village Homeowners Association

Notes to Financial Statements (Continued)
December 31, 2011

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

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.

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 2011 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 funded \$112,565 in 2011.

Note 5 - Assessments Receivable - Net:

As of December 31, 2011, the Association had assessments receivable of \$120,068, which are reported net of an allowance for doubtful accounts of \$83,500. At December 31, 2011, there were twenty three accounts in the amount of \$110,029 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, 2011 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.

Lakeside Village Homeowners Association

Notes to Financial Statements (Continued)
December 31, 2011

Note 7 - Risks and Uncertainties:

The Association's accounts 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.

Note 8 - Commitments:

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

Note 9 - Management Company Transactions:

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

Supplementary Information

Lakeside Village Homeowners Association

Supplementary Information on Future
Major Repairs and Replacements - Unaudited
December 31, 2011

The Association commissioned a study by professional reserve analysts in 2012 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 one 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. #: 13297-2**
Location: Federal Way, WA
of Units: 78
Report Period: January 1, 2012 through December 31, 2012

Results as-of 1/1/2012:

Projected Starting Reserve Balance:	\$40,000
Fully Funded Reserve Balance:	\$510,535
Average Reserve Deficit (Surplus) Per Unit:.....	\$6,033
Percent Funded:	7.8%
100% Full Funding 2012 Monthly Reserve Contribution:.....	\$7,154
70% Threshold Monthly Reserve Contribution.....	\$6,573
Baseline Contribution (min to maintain reserves above \$0).....	\$6,116
Recommended 2012 Special Assessment for Reserves:.....	\$78,000
Most Recent Reserve Contribution Rate:.....	\$6,622

Economic Assumptions:

Net Annual "After Tax" Interest Earnings Accruing to Reserves..... 1.00%
Annual Inflation Rate 3.00%

- This is an "Update With-Site-Visit" Reserve Study, based on our prior Report prepared for your 2009 Fiscal Year. The information in this Reserve Study is based on our site inspection on December 2, 2011 and meets or exceeds all requirements of chapter 64.34 RCW, Article 3. This Reserve Study was prepared by a credentialed Reserve Specialist (RS 153).
- Your Reserve Fund is 7.8% Funded. Comparatively, the 70-130% level is where associations statistically enjoy fiscal stability with low risk of special assessment and/or deferred maintenance.
- Based on this starting point and your anticipated future expenses, we are forced to recommend a One-Time Special Assessment of \$78,000 (\$1,000 each Unit) in FY 2012. Further, our recommendation is to maintain your Reserve contributions to within the 70% to 100% Full Funding level as noted above (Tables and charts herein reflect Full Funding as recommended contribution). Full and 70% contribution rates are designed to achieve objective by the end of our 30-year report scope. See photo pages for detailed component information and the basis of our assumptions

Table 1: Executive Summary

13297-2

# Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Average Cost	Future Average Cost
SITE/GROUNDS				
104 Asphalt - Seal/Repair	5	1	\$23,710	\$24,421
106 Asphalt - Resurface	40	11	\$128,800	\$178,289
124 Metal Pole Lights - Replace	40	11	\$19,250	\$26,647
130 Mailboxes/Structures - Replace	30	2	\$6,500	\$6,896
150 Perimeter Fence, South-Replace Part	3	2	\$3,000	\$3,183
152 Perimeter Fence, West - Replace	20	2	\$14,450	\$15,330
162 Building 3-5 Patio Fences - Replace	18	1	\$27,200	\$28,016
163 Building 1-2 Patio Fences - Replace	18	17	\$17,000	\$28,098
164 Goose Fence - Replace	40	1	\$5,000	\$5,150
172 Cabana Deck - Repair/Replace	20	16	\$5,610	\$9,002
RECREATION				
400 Pool Deck - Resurface	40	11	\$24,000	\$33,222
402 Pool - Resurface	10	1	\$20,000	\$20,600
407 Pool Fence - Replace	30	26	\$6,000	\$12,940
408 Pool Heater - Replace	10	4	\$4,500	\$5,065
420 Spa - One-Time Renovation	N/A	1	\$8,000	\$8,240
422 Spa - Resurface	5	6	\$5,000	\$5,970
424 Spa Heater - Replace	10	2	\$4,000	\$4,244
440 Tennis Court - Resurface	30	2	\$25,000	\$26,523
440 Tennis Court - Seal/Repair	5	7	\$5,000	\$6,149
444 Tennis Court Fence - Replace	40	12	\$7,920	\$11,292
BUILDING EXTERIOR				
500 Elastomeric Decks - Seal/Repair	5	1	\$5,230	\$5,387
502 Vinyl Decks - Repair/Resurface (a)	18	12	\$12,250	\$17,466
502 Vinyl Decks - Repair/Resurface (b)	18	13	\$15,750	\$23,129
502 Vinyl Decks - Repair/Resurface (c)	18	14	\$15,750	\$23,823
502 Vinyl Decks - Repair/Resurface (d)	18	15	\$22,750	\$35,444
502 Vinyl Decks - Repair/Resurface (e)	18	16	\$17,500	\$28,082
502 Vinyl Decks - Repair/Resurface (f)	18	17	\$24,500	\$40,495
506 Indoor/Outdoor Carpet - Replace	12	1	\$5,200	\$5,356
540 Bldg 4, 5 and Cabana - Paint	6	2	\$61,500	\$65,245
541 Building 3 - Paint	6	3	\$37,200	\$40,649
542 Bldg 1, 2 and Carports - Paint	6	5	\$62,000	\$71,875
600 Building 1-4 Roofs - Replace	25	16	\$124,950	\$200,508
602 Building 5 Roof - Replace	25	23	\$34,775	\$68,631
606 Cabana Roof - Replace	25	18	\$9,100	\$15,492
608 Carport Roofs, ~1/3 - Replace (a)	25	16	\$15,900	\$25,515
608 Carport Roofs, ~1/3 - Replace (b)	25	18	\$15,900	\$27,069
608 Carport Roofs, ~1/3 - Replace (c)	25	21	\$15,900	\$29,579

Table 1: Executive Summary

13297-2

# Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Average Cost	Future Average Cost
BUILDING INTERIOR				
700 Cabana Interior Surfaces - Refinish	10	9	\$4,400	\$5,741
702 Cabana Flooring - Replace	10	9	\$5,400	\$7,046
SYSTEMS/EQUIPMENT				
902 Electrical - Repair/Replace	N/A	4	\$48,000	\$54,024
904 Fire Monitoring - One-Time Project	N/A	0	\$85,000	\$0
908 Fire Alarm Panels - Replace	20	20	\$11,250	\$20,319
42 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. Highlighting denotes projects anticipated to occur in the initial year. A reserve-funding threshold of \$3,000 has been established for your association (expenses below this level expected to be factored within operating budget).