

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.

June 30, 2015

Ms. Linsey Anglemyer
Protocol Property Management
1740 Watson St. N.
Enumclaw, WA 98022

Dear Linsey:

Enclosed are three copies of the financial statements of Lakeside Village Homeowners Association for the year ended December 31, 2014, accompanied by our report thereon. If you have any questions, please call.

Very truly yours,

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



Encl.

Lakeside Village Homeowners Association

Financial Statements and
Supplementary Information

For the Year Ended December 31, 2014

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.

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Lakeside Village Homeowners Association, which comprise the balance sheet as of December 31, 2014, 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.

Management's Responsibility for the Financial Statements

Management 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 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.

INDEPENDENT AUDITORS' REPORT (continued)

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, 2014, 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.

Disclaimer of Opinion on Required Supplementary Information

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, Munier & Co., PLLC

Certified Public Accountants

June 26, 2015

Lakeside Village Homeowners Association

Balance Sheet
December 31, 2014

<u>Assets</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash	\$ 23,137	\$ 223,670	\$ 246,807
Assessments receivable - net	79,061	7,974	87,035
Unexpired insurance	19,729		19,729
Total assets	<u>\$ 121,927</u>	<u>\$ 231,644</u>	<u>\$ 353,571</u>
 <u>Liabilities and Fund Balances</u>			
Accounts payable	\$ 9,243	\$	\$ 9,243
Assessments received in advance	9,404		9,404
Total liabilities	\$ 18,647	\$	\$ 18,647
Fund balances	103,280	231,644	334,924
Total liabilities and fund balances	<u>\$ 121,927</u>	<u>\$ 231,644</u>	<u>\$ 353,571</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, 2014

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues:			
Member assessments	\$ 305,012	\$ 69,472	\$ 374,484
Special assessment		42,528	42,528
Other member charges	10,896		10,896
Interest	<u>16</u>	<u>384</u>	<u>400</u>
Total revenues	\$ 315,924	\$ 112,384	\$ 428,308
Expenses:			
Utilities:			
Water and sewer	\$ 41,224	\$	\$ 41,224
Garbage	29,761		29,761
Cable television	40,154		40,154
Electricity and natural gas	5,168		5,168
Telephone	<u>507</u>		<u>507</u>
	\$ 116,814	\$	\$ 116,814
Maintenance:			
General repairs and maintenance	\$ 27,540	\$	\$ 27,540
Grounds and landscaping	24,938		24,938
Janitorial and cleaning	7,800		7,800
Pool	8,992		8,992
Pest control	4,151		4,151
Fire and safety	4,774		4,774
Major repairs	<u>17,731</u>	<u>36,247</u>	<u>53,978</u>
	\$ 95,926	\$ 36,247	\$ 132,173
General and administrative:			
Management fees	\$ 22,740	\$	\$ 22,740
Insurance	55,629		55,629
Professional services	12,842		12,842
Uncollectible accounts	2,000		2,000
Office and miscellaneous	<u>6,029</u>	<u>6</u>	<u>6,035</u>
	\$ 99,240	\$ 6	\$ 99,246
Total expenses	\$ 311,980	\$ 36,253	\$ 348,233
Excess (deficit) of revenues over expenses	\$ 3,944	\$ 76,131	\$ 80,075
Fund balances at beginning of year	103,128	151,721	254,849
Interfund transfers	<u>(3,792)</u>	<u>3,792</u>	
Fund balances at end of year	\$ <u>103,280</u>	\$ <u>231,644</u>	\$ <u>334,924</u>

See accompanying notes to financial statements.

Lakeside Village Homeowners Association

Statement of Cash Flows
For the Year Ended December 31, 2014

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Excess (deficit) of revenues over expenses:	\$ 3,944	\$ 76,131	\$ 80,075
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in assets:			
Assessments receivable - net	1,197	(3,792)	(2,595)
Unexpired insurance	1,241		1,241
Increase (decrease) in liabilities:			
Accounts payable	29		29
Assessments received in advance	<u>1,529</u>		<u>1,529</u>
Net cash provided (used) by operating activities	\$ 7,940	\$ 72,339	\$ 80,279
Cash flows from financing activities:			
Interfund transfers	\$ <u>(3,792)</u>	\$ <u>3,792</u>	\$ <u></u>
Net cash provided (used) by financing activities	\$ <u>(3,792)</u>	\$ <u>3,792</u>	\$ <u></u>
Net increase (decrease) in cash	\$ 4,148	\$ 76,131	\$ 80,279
Cash at beginning of year	<u>18,989</u>	<u>147,539</u>	<u>166,528</u>
Cash at end of year	\$ <u><u>23,137</u></u>	\$ <u><u>223,670</u></u>	\$ <u><u>246,807</u></u>
Supplemental disclosure:			
Income taxes paid	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>

See accompanying notes to financial statements.

Lakeside Village Homeowners Association

Notes to Financial Statements
December 31, 2014

Note 1 - Nature of Organization:

Lakeside Village Homeowners Association is a statutory homeowner association incorporated as a nonprofit organization in the state of Washington December 15, 2004. 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.

Lakeside Village Homeowners Association

Notes to Financial Statements (Continued)
December 31, 2014

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. There is no capitalized personal property at the end of the year.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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 separate accounts and are generally not available for operating purposes.

The Association commissioned a study by professional reserve analysts in 2015 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 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 and funded \$112,000 in 2014.

Note 5 - Assessments Receivable - Net:

As of December 31, 2014, the Association had assessments receivable of \$170,535, which are reported net of an allowance for doubtful accounts of \$83,500. At December 31, 2014, there were thirty eight accounts in the amount of \$155,679 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.

Lakeside Village Homeowners Association

Notes to Financial Statements (Continued)
December 31, 2014

Note 6 - Federal Income Taxes:

The Association is taxed as a regular corporation or may elect to be taxed as a homeowners association under Internal Revenue Code Section 528. For the year ended December 31, 2014 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. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

Note 7 - Special Assessment:

During the year ended December 31, 2014, the Association levied a \$42,528 special assessment to provide additional reserve funds for future projects.

Note 8 - 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 9 - Commitments:

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

Note 10 - 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, 2014

The Association commissioned a study by professional reserve analysts in 2015 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. The study also includes an inflation rate of three percent and an interest rate of one percent, net of tax.

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.

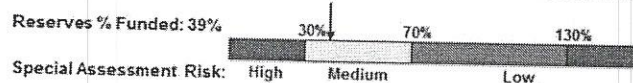
See independent auditors' report.

3- Minute Executive Summary

Association: Lakeside Village #: 13297-5
 Location: Federal Way, WA # of Units: 78
 Report Period: February 1, 2015 through December 31, 2015

Findings/Recommendations as-of 2/1/2015:

Projected Starting Reserve Balance:	\$223,710
Current Fully Funded Reserve Balance:	\$571,020
Average Reserve Deficit (Surplus) Per Unit:.....	\$4,453
100% 2015 Monthly "Full Funding" Contributions:.....	\$6,994
70% 2015 Monthly "Threshold Funding" Contributions	\$6,350
Baseline contributions (minimum to keep Reserves above \$0):.....	\$5,741
Recommended 2015 Special Assessment for Reserves:	\$0
Most Recent Budgeted Reserve Contribution Rate:	\$6,062



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 on-site inspection on December 4, 2014 and meets or exceeds all requirements of the RCW. This study was prepared by, or under the supervision of a credentialed Reserve Specialist (RS 153).
- Your Reserve Fund is 39% Funded. This means the association's risk of special assessment and/or deferred maintenance is currently medium. The objective of your multi-year Funding Plan is to fund your Reserves to a level where you will enjoy a low risk of such Reserve cash flow problems.
- Based on this starting point and your anticipated future expenses, our recommendation is to increase your Reserve contributions to within the 70% to 100% level as noted above. 100% "Full" and 70% contribution rates are designed to achieve these funding objectives *by the end* of our 30-year report scope.
- No assets appropriate for Reserve designation were knowingly excluded. The reader is directed to the attached and detailed Photographic Inventory Appendix (Photo Pages) to gain a comprehensive understanding of the basis of our recommendations for this year's report.

Table 1: Executive Summary

13297-5

#	Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Cost Estimate
Site/Grounds				
104	Asphalt - Seal/Repair	5	0	\$22,400
106	Asphalt - Resurface	40	9	\$128,800
122	Small Pole Lights - Replace	30	5	\$19,500
124	Tall Pole Lights - Replace	40	11	\$20,300
130	Mailboxes - Replace	30	29	\$8,000
150	Perimeter Fence, West - Replace	20	0	\$28,050
152	Perimeter Fence, South-Replace Part	5	1	\$4,290
160	Building 4 Patio Fences - Replace	18	0	\$13,200
162	Building 1-2 Patio Fences - Replace	18	14	\$24,000
164	Building 3 Patio Fences - Replace	18	16	\$12,000
166	Building 5 Patio Fences - Replace	18	17	\$13,200
180	Cabana Deck - Repair/Replace	20	13	\$6,800
Recreation				
400	Pool Deck - Resurface	40	10	\$24,000
402	Pool - Resurface	10	0	\$21,000
407	Pool Fence - Replace	30	23	\$6,000
408	Pool Heater - Replace	10	1	\$4,500
422	Spa - Resurface	5	4	\$5,000
424	Spa Heater - Replace	10	9	\$4,000
440	Tennis Court - Resurface	36	0	\$28,800
440	Tennis Court - Seal/Repair	6	6	\$7,500
444	Tennis Court Fence - Replace	40	10	\$8,640
Building Exterior				
500	Elastomeric Decks - Seal/Repair	5	0	\$5,790
502	Vinyl Decks - Repair/Resurface (a)	18	9	\$14,700
502	Vinyl Decks - Repair/Resurface (b)	18	10	\$18,900
502	Vinyl Decks - Repair/Resurface (c)	18	11	\$18,900
502	Vinyl Decks - Repair/Resurface (d)	18	12	\$27,300
502	Vinyl Decks - Repair/Resurface (e)	18	13	\$21,000
502	Vinyl Decks - Repair/Resurface (f)	18	14	\$29,400
506	Indoor/Outdoor Carpet - Replace	12	0	\$8,100
540	Bldg 4, 5 and Cabana - Paint	8	1	\$67,500
541	Building 3 - Paint	8	2	\$40,500
542	Bldg 1, 2 and Carports - Paint	8	4	\$66,750
600	Building 1-4 Roofs - Replace	25	13	\$132,090
602	Building 5 Roof - Replace	25	20	\$34,775
606	Cabana Roof - Replace	25	16	\$9,620
608	Carport Roofs, ~1/3 - Replace (a)	25	13	\$17,490
610	Carport Roofs, ~1/3 - Replace (b)	25	15	\$17,490

Table 1: Executive Summary

13297-5

#	Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Cost Estimate
612	Carport Roofs, ~1/3 - Replace (c)	25	18	\$17,490
700	Cabana Interior Surfaces - Refinish	10	6	\$4,500
702	Cabana Flooring - Replace	10	6	\$7,200
Systems/Equipment				
908	Fire Alarm Panels - Replace	20	18	\$13,000
920	Surveillance System - Reinstall	N/A	0	\$5,000
922	Surveillance System - Replace	10	10	\$4,000
43	Total Funded Components			

Note;

A Useful Life of "N/A" means a one-time expense, not expected to repeat.

Yellow highlighted line items are expected to require attention in the initial year

Green highlighted items are expected to occur within the first five years.

Cross reference component numbers with photographic inventory appendix.

A reserve-funding threshold of \$3,000 is established for your association (expenses below this level expected to be factored within operating budget)