

South Cove Home Owners Association



Audit Report & Financial Statements

December 31, 2009

Prepared by:

Cagianut & Company

CERTIFIED PUBLIC ACCOUNTANT

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Members - Community Associations Institute – Washington State
Washington Society of Certified Public Accountants
American Institute of Certified Public Accountants

Independent Auditors' Report

To the Board of Directors and Members
South Cove Home Owners Association
Issaquah, Washington

We have audited the accompanying balance sheet of South Cove Home Owners Association as of December 31, 2009 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 board of directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraphs, 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

This was our first audit of the Association's financial statements and the scope of the engagement did not include an audit of the financial statements of the preceding year sufficient to enable us to express, and we do not express, an opinion on the consistency of application of accounting principles with the preceding year.

The Association has kept its records and has prepared its financial statements for the previous years on the modified cash basis of accounting. The Association has adopted the accrual basis of accounting as of the beginning of the current year. Although appropriate adjustments have been made to the operating fund balance as of that date, it was not practicable to determine what adjustments would be necessary in the financial statements of the preceding year to retrospectively adjust results of operations and cash flows to conform with the accounting principles used in the current year.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Cove Home Owners Association as of December 31, 2009, 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future repairs and replacements are adequate to meet such future costs because that determination is outside the scope of our audit.

The Association has omitted the Supplementary Information on Future Major Repairs and Replacements that accounting principles generally accepted in the United States of America require be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the American Institute of Certified Public Accountants 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. Our opinion on the basic financial statements is not affected by this missing information.

Cagianut & Company, CPA
July 21, 2010

South Cove Home Owners Association
 Balance Sheet
 December 31, 2009

	OPERATING FUND	REPLACEMENT FUND	TOTAL
ASSETS			
Cash, including interest bearing deposits	\$ 51,611	\$ 26,542	\$ 78,153
Assessments Receivable	3,150		3,150
Less: Allowance for Bad Debts	(2,025)		(2,025)
Prepaid Insurance	2,278		2,278
TOTAL ASSETS	\$ 55,014	\$ 26,542	\$ 81,556
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Assessments Received in Advance	\$ 53,151		\$ 53,151
TOTAL LIABILITIES	53,151		53,151
FUND BALANCES (NOTE 1)			
Operating	1,863		1,863
Replacement (Note 2)		\$ 26,542	26,542
TOTAL FUND BALANCES	1,863	26,542	28,405
TOTAL LIABILITIES AND FUND BALANCES	\$ 55,014	\$ 26,542	\$ 81,556

See Notes to the Financial Statements

South Cove Home Owners Association
Statement of Changes in Fund Balances
For the Year Ended December 31, 2009

	OPERATING FUND	REPLACEMENT FUND	TOTAL
Balance at the Beginning of the Year	\$ 78,465	\$ 0	\$ 78,465
Prior Period Adjustment	(47,238)	450	(46,788)
Transfer Between Funds	2,879	(2,879)	
Change in Accounting Method	(26,079)	26,079	
Excess <Deficiency> of Revenues over Expenses	(6,164)	2,892	(3,272)
Balance at the End of the Year	<u>\$ 1,863</u>	<u>\$ 26,542</u>	<u>\$ 28,405</u>

See Notes to the Financial Statements

South Cove Home Owners Association
Statement of Revenues and Expenses
For the Year Ended December 31, 2009

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUES			
Assessments	\$ 62,146	\$ 2,879	\$ 65,025
Fines	450		450
Interest	53	13	66
Miscellaneous	57		57
TOTAL REVENUES	62,706	2,892	65,598
EXPENSES			
Accounting & Tax Preparation	200		200
Bad Debts	2,025		2,025
Board & Committee	538		538
Entrance Sign	4,636		4,636
Events	6,809		6,809
Insurance	4,385		4,385
Landscape	36,677		36,677
Legal	925		925
Life Safety Systems	2,271		2,271
Miscellaneous	1,169		1,169
Newsletter	1,875		1,875
Storage	725		725
Water	6,635		6,635
TOTAL EXPENSES	68,870		68,870
EXCESS <DEFICIENCY> OF REVENUES OVER EXPENSES	\$ (6,164)	\$ 2,892	\$ (3,272)

See Notes to the Financial Statements

South Cove Home Owners Association
Statement of Cash Flows
For the Year Ended December 31, 2009

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<i>Cash Flows from Operating Activities:</i>			
Cash from Assessments	\$ 112,146	\$ 2,879	\$ 115,025
Interest Received	53	13	66
Miscellaneous Income	507		507
Cash Paid for Services and Products	(116,361)	450	(115,911)
Net Increase <Decrease> in Cash from Operating Activities	(3,655)	3,342	(313)
<i>Cash Flows from Financing Activities:</i>			
Transfers Between Funds	2,879	(2,879)	
Net Increase <Decrease> in Cash	(776)	463	(313)
Cash at the Beginning of Year	52,387	26,079	78,466
Cash at the End of Year	<u>\$ 51,611</u>	<u>\$ 26,542</u>	<u>\$ 78,153</u>

Reconciliation of Excess <Deficiency> of Revenues over Expenses to Net Cash Received by Operations:

Excess <Deficiency> of			
Revenues over Expenses	\$ (6,164)	\$ 2,892	\$ (3,272)
Increased Assessments Receivable	(3,150)		(3,150)
Increased Bad Debt Allowance	2,025		2,025
Increased Prepaid Insurance	(2,278)		(2,278)
Increased Prepaid Assessments	53,150		53,150
Prior Period Adjustment	(47,238)	450	(46,788)
Net Increase <Decrease> in Operating Cash	<u>\$ (3,655)</u>	<u>\$ 3,342</u>	<u>\$ (313)</u>

South Cove Home Owners Association
Notes to the Financial Statements
December 31, 2009

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

South Cove Home Owners Association was incorporated October 21, 1976 in the state of Washington as a nonprofit corporation. The Association is responsible for the operation and maintenance of the common property. This is a 289-unit planned residential development located in Issaquah, Washington.

Accounting Method

The Association prepares its statements on the accrual basis of accounting whereby income and expenses are recognized when earned and incurred. Fund accounting is employed to properly account for the monies. The Operating Fund is used to pay for all utility, insurance, general maintenance, landscaping, and administrative obligations of the Association. The Replacement Fund has been established to meet the replacement and major repair obligations of the Association with regard to the common area components.

Capitalization Policy

Replacements and improvements to the real property are not capitalized on the books of the Association as the Board does not have the right to sell the common areas and keep the proceeds. Property and equipment acquired by the Association are recorded at cost. The property is depreciated over its estimated useful lives using the straight line method of depreciation. There is no capitalized property at the end of the year.

Assessments Receivable

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's Declaration provides for various collection remedies for delinquent assessments including the filing of liens, foreclosing on the unit owner, and obtaining judgment on the assets of the unit owner. The Association uses the allowance method to account for uncollectible assessments receivable.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, funds on deposit with financial institutions, and investments with original maturities of three months or less.

Date of 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 that the financial statements were available to be issued.