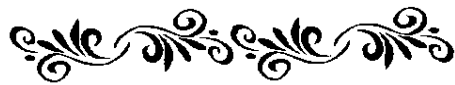


# South Cove Home Owners Association



## *Audit Report & Financial Statements*

*December 31, 2010*

*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, 2010 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.

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.

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, 2010, 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*

May 28, 2011

**SOUTH COVE HOME OWNERS ASSOCIATION**

Balance Sheet  
December 31, 2010

	OPERATING FUND	REPLACEMENT FUND	SPECIAL ASSESSMENT FUND	TOTAL
<b>ASSETS</b>				
Cash, including interest bearing deposits	\$ 35,317	\$ 26,556	\$ 18,571	\$ 80,444
Assessments Receivable	675			675
Less: Allowance for Bad Debts	(400)			(400)
Prepaid Insurance	2,278			2,278
Prepaid Expenses	2,135			2,135
Special Assessments Receivable			9,200	9,200
Due Between Funds	4,068		(4,068)	
<b>TOTAL ASSETS</b>	<b>\$ 44,073</b>	<b>\$ 26,556</b>	<b>\$ 23,703</b>	<b>\$ 94,332</b>
 <b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Assessments Received in Advance	\$ 42,874			\$ 42,874
<b>TOTAL LIABILITIES</b>	<b>42,874</b>			<b>42,874</b>
 <b>FUND BALANCES (NOTE 1)</b>				
Operating	1,199			1,199
Replacement (Note 2)		\$ 26,556		26,556
Special Assessments			\$ 23,703	23,703
<b>TOTAL FUND BALANCES</b>	<b>1,199</b>	<b>26,556</b>	<b>23,703</b>	<b>51,458</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 44,073</b>	<b>\$ 26,556</b>	<b>\$ 23,703</b>	<b>\$ 94,332</b>

See Notes to the Financial Statements

**SOUTH COVE HOME OWNERS ASSOCIATION**  
Statement of Changes in Fund Balances  
For the Year Ended December 31, 2010

	OPERATING FUND	REPLACEMENT FUND	SPECIAL ASSESSMENT FUND	TOTAL
Balance at the Beginning of the Year	\$ 1,864	\$ 26,543	\$ 0	\$ 28,407
Excess <Deficiency> of Revenues over Expenses	(665)	13	23,703	23,051
Balance at the End of the Year	<u>\$ 1,199</u>	<u>\$ 26,556</u>	<u>\$ 23,703</u>	<u>\$ 51,458</u>

See Notes to the Financial Statements

**SOUTH COVE HOME OWNERS ASSOCIATION**

Statement of Revenues and Expenses  
For the Year Ended December 31, 2010

	OPERATING FUND	REPLACEMENT FUND	SPECIAL ASSESSMENT FUND	TOTAL
<b>REVENUES</b>				
Special Assessments			\$ 28,800	\$ 28,800
Assessments	\$ 64,738	\$		64,738
Interest		13		13
Miscellaneous	120			120
<b>TOTAL REVENUES</b>	<b>64,858</b>	<b>13</b>	<b>28,800</b>	<b>93,671</b>
<b>EXPENSES</b>				
Administration	1,580			1,580
Audit & Tax Preparation	2,100			2,100
Bad Debts	400			400
Events	8,596			8,596
Insurance	4,810			4,810
Landscape	29,408			29,408
Legal	7,130			7,130
Life Safety Systems	3,702			3,702
Miscellaneous	1,002			1,002
Newsletter, Notices	411			411
Repairs & Maintenance	1,410			1,410
Trees	952			952
Water	1,865			1,865
Website	2,157			2,157
Special Assessments Expenses				
Bank Fees			29	29
Drainage			5,068	5,068
<b>TOTAL EXPENSES</b>	<b>65,523</b>		<b>5,097</b>	<b>70,620</b>
<b>EXCESS &lt;DEFICIENCY&gt; OF REVENUES OVER EXPENSES</b>	<b>\$ (665)</b>	<b>\$ 13</b>	<b>\$ 23,703</b>	<b>\$ 23,051</b>

See Notes to the Financial Statements

**SOUTH COVE HOME OWNERS ASSOCIATION**  
**Statement of Cash Flows**  
For the Year Ended December 31, 2010

	OPERATING FUND	REPLACEMENT FUND	SPECIAL ASSESSMENT FUND	TOTAL
<i>Cash Flows from Operating Activities:</i>				
Cash from Assessments	\$ 56,938			\$ 56,938
Cash from Special Assessments			\$ 19,600	19,600
Interest Received		\$ 14		14
Miscellaneous Income	120			120
Cash Paid for Services/Products	(69,284)		(5,097)	(74,381)
Net Increase <Decrease> in Cash from Operating Activities	(12,226)	14	14,503	2,291
<i>Cash Flows from Financing Activities:</i>				
Change in Due Between Funds	(4,068)		4,068	
Net Increase <Decrease> in Cash	(16,294)	14	18,571	2,291
Cash, including interest bearing deposits, at the Beginning of Year	51,611	26,542		78,153
Cash, including interest bearing deposits, at the End of Year	<u>\$ 35,317</u>	<u>\$ 26,556</u>	<u>\$ 18,571</u>	<u>\$ 80,444</u>

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

Excess <Deficiency> of				
Revenues over Expenses	\$ (665)	\$ 13	\$ 23,703	\$ 23,051
Decreased Assessments Receivable	2,475			2,475
Decreased Bad Debt Allowance	(1,625)			(1,625)
Increased Prepaid Expenses	(2,135)			(2,135)
Decreased Special Assessments Receivable			(9,200)	(9,200)
Decreased Prepaid Assessments	(10,275)			(10,275)
Rounding	(1)	1		
Net Increase <Decrease> in Operating Cash	<u>\$ (12,226)</u>	<u>\$ 14</u>	<u>\$ 14,503</u>	<u>\$ 2,291</u>

## SOUTH COVE HOME OWNERS ASSOCIATION

Notes to the Financial Statements  
December 31, 2010

### 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 288-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.

## **SOUTH COVE HOME OWNERS ASSOCIATION**

Notes to the Financial Statement  
December 31, 2010

### **NOTE 2 - REPLACEMENT FUNDING PROGRAM**

The Association is currently funding replacement reserve accounts for the future major repair and replacement of Association common areas as disclosed in Note 1. Accumulated funds are held in separate accounts and are generally not available for operating purposes.

There is no current reserve study. Annual funding is considered in the budget process. The funding is approved by the Board of Directors.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and variations may be material. Therefore, the amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to certain legal limitations, to increase monthly assessments, pass special assessments, or delay replacement if these funds are found to be inadequate for all future costs.

### **NOTE 3 - INCOME TAXES**

Associations may be taxed either as homeowners associations or as regular corporations. For the current year the Association elected to file as a homeowners association using form 1120-H under Internal Revenue Code Section 528. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance and care of Association property. Net nonexempt function income which includes interest, user fees and revenues from non-members is taxed at 30%. Certain expenses were allocated to offset a portion of the taxable income.

The Association's federal tax return is subject to audit by the Internal Revenue Service. The tax returns for the current and prior two fiscal years remain open for examination by the IRS. In evaluating the Association's tax positions and accruals, the Association believes that its estimates are appropriate based on the current facts and circumstances.

### **NOTE 4 - OWNERS' ASSESSMENTS**

Annual assessments to owners were \$225.00. Of this amount, a portion was designated to the replacement fund.

The annual budget and owners' assessments are determined by the Board of Directors, within certain restrictions. The Association retains excess operating funds at the end of the year, if any, for use in future operating periods.

### **NOTE 5 - SPECIAL ASSESSMENT FUND ACTIVITY**

In June 2010, a special assessment of \$100.00 per unit was approved by the membership with a due date of September 30, 2010.

The assessment will be used to repair the drainage system on the playground side of the tennis courts and complete the picnic area renovation.

A separate fund has been established to account for the activity of this special assessment.