

# Renaissance Ridge Homeowners Association

## Financial Statements and Supplementary Information

Year Ended December 31, 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members  
Renaissance Ridge Homeowners Association  
Sammamish, Washington

We have audited the accompanying balance sheet of Renaissance Ridge Homeowners Association as of December 31, 2007, 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 Renaissance Ridge Homeowners Association as of December 31, 2007, 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.

The supplementary information on future major repairs and replacements is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Stanford, Munko & Co., PLLC*  
Certified Public Accountants

September 29, 2008

Renaissance Ridge Homeowners Association

Balance Sheet - December 31, 2007

<u>Assets</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash	\$ 13,777	\$ 59,328	\$ 73,105
Assessments receivable	3,525		3,525
Other receivables	927		927
Prepaid insurance	<u>5,492</u>		<u>5,492</u>
Total assets	<u>\$ 23,721</u>	<u>\$ 59,328</u>	<u>\$ 83,049</u>
 <u>Liabilities and Fund Balances</u>			
Accounts payable	\$ 1,107	\$	\$ 1,107
Prepaid assessments	<u>12,283</u>		<u>12,283</u>
Total liabilities	\$ 13,390	\$	\$ 13,390
Fund balances	<u>10,331</u>	<u>59,328</u>	<u>69,659</u>
Total liabilities and fund balances	<u>\$ 23,721</u>	<u>\$ 59,328</u>	<u>\$ 83,049</u>

See accompanying notes to financial statements.

Renaissance Ridge Homeowners Association

Statement of Revenues, Expenses  
and Changes in Fund Balances  
Year Ended December 31, 2007

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues:			
Regular assessments	\$ 93,703	\$ 17,132	\$ 110,835
Late and other member charges	523		523
Interest		3,107	3,107
	<hr/>	<hr/>	<hr/>
Total revenue	\$ 94,226	\$ 20,239	\$ 114,465
Expenses:			
Utilities:			
Electricity	\$ 8,542	\$	\$ 8,542
Water / sewer	17,568		17,568
Telephone / alarm	158		158
	<hr/>	<hr/>	<hr/>
	\$ 26,268	\$	\$ 26,268
Maintenance:			
General repairs and maintenance	\$ 2,484	\$ 12,318	\$ 14,802
Landscape maintenance	59,769		59,769
	<hr/>	<hr/>	<hr/>
	\$ 62,253	\$ 12,318	\$ 74,571
General and administrative:			
Management fees	\$ 7,200	\$	\$ 7,200
Insurance	5,313		5,313
Legal	305		305
Professional services	950		950
Office expense and miscellaneous	1,499	100	1,599
	<hr/>	<hr/>	<hr/>
	\$ 15,267	\$ 100	\$ 15,367
Total operating expenses	\$ 103,788	\$ 12,418	\$ 116,206
Excess of revenues over expenses	\$ (9,562)	\$ 7,821	\$ (1,741)
Fund balances at beginning of year	(1,107)	72,507	71,400
Interfund transfers	21,000	(21,000)	
	<hr/>	<hr/>	<hr/>
Fund balances at end of year	\$ 10,331	\$ 59,328	\$ 69,659

See accompanying notes to financial statements.

Renaissance Ridge Homeowners AssociationStatement of Cash Flows  
Year Ended December 31, 2007

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Excess of revenues over expenses:	\$ (9,562)	\$ 7,821	\$ (1,741)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in assets:			
Assessments receivable	265		265
Special assessments receivable	165		165
Other receivables	(2)		(2)
Prepaid insurance	(178)		(178)
Increase (decrease) in liabilities:			
Accounts payable	(11,162)		(11,162)
Prepaid assessments	5,958		5,958
Net cash provided (used) by operating activities	\$ (14,516)	\$ 7,821	\$ (6,695)
Cash flows from financing activities:			
Interfund balances	21,000	(21,000)	
Net increase (decrease) in cash	\$ 6,484	\$ (13,179)	\$ (6,695)
Cash at beginning of year	7,293	72,507	79,800
Cash at end of year	\$ <u>13,777</u>	\$ <u>59,328</u>	\$ <u>73,105</u>
Supplemental disclosure:			
Income taxes paid	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>

See accompanying notes to financial statements.

# Renaissance Ridge Homeowners Association

## Notes to Financial Statements Year Ended December 31, 2007

### Note 1 - Nature of Organization:

Renaissance Ridge Homeowners Association is a statutory condominium association incorporated in the State of Washington on November 12, 1998. The Association is responsible for the operation and maintenance of the common property of Renaissance Ridge Homeowners Association which consists of 300 residential units located in Sammamish, Washington.

### Note 2 - 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 uses of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - This fund is used to account for financial resources available for the general operations of the Association

Replacement Fund - This fund is used to accumulate financial resources designated for future major repairs and replacements. Also included is a Monument fund to be used for the repair/replacement of the monument. The monument fund is considered fully funded

#### Cash and Cash Equivalents:

The Association considers money market accounts and cash investments with an original maturity date of 90 days or less to be 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. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association has the authority to assess late charges and, if necessary, place liens on properties of homeowners whose assessments are delinquent. At December 31, 2007, there were 13 accounts in the amount of \$4,356 which were over 90 days delinquent. Association management believes that all assessments receivable at the balance sheet date will be collected in full. The Association retains any excess assessments at year-end for use in the succeeding year.

#### Property and Equipment:

Real property and common areas acquired from the developer and related improvements to such property are not recorded on the Association's financial statements. Those properties are owned by the individual unit owners in common and not by the Association. Expenditures for improvements to such property are charged to expense in the period incurred.

Renaissance Ridge Homeowners Association

Notes to Financial Statements (Continued)  
Year Ended December 31, 2007

Note 2 - Summary of Significant Accounting Policies (Continued):

Federal Income Taxes:

The Association may elect to be taxed as a regular corporation or as a homeowners association. For the year ended December 31, 2007 the Association elected to be taxed as a homeowners association because that method resulted in a lower tax due. 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 membership assessments, is not taxable.

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 3 - Future Major Repairs and Replacements:

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds in the Maintenance fund and the Monument fund, which aggregated approximately \$51,875 and \$7453 at December 31, 2007, are held in separate accounts and are generally not available for operating purposes.

The Association commissioned a study by professional reserve analysts in 2004 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.

Note 4 - Management Company Transactions:

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

Note 5 - Commitments:

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

# Supplementary Information

Renaissance Ridge Homeowners Association

Supplementary Information on Future  
Major Repairs and Replacements  
Year Ended December 31, 2007

The Association commissioned a study in 2004 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. The study takes into account the effects of a five percent inflation rate and a four percent interest rate between the date of the study and the date that the components will require repair or replacement.

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.

#	Component name	Typical life	Next exp.	2004	2005	2006	2007	2008	2009	2010	2011	2012
2.6.1	Streets and Roads	15	-									
2.6.2	Asphalt Paving	15	1		\$1,049						\$1,406	
2.6.3	Gravel Pathways	5	1		\$5,182					\$6,613		
2.7.1	Fencing	10	4					\$58,438		\$128,857		\$71,032
2.8.1	Site Fixtures	15	2			\$288				\$8,916		
2.9.1	Lawns/Landscape	Indef.	-									
3.2.1	Retaining Walls	30	-									
10.4.4	Entry Features	Varies	6							\$8,500		\$17,360
10.5.1	Mailboxes	10	6							\$11,084	\$11,638	\$12,220
15.2.1	Lawn Irrigation	Varies	-									
15.4.1	Stormwater Detention	Indef.	-									
16.6.1	Exterior Lighting	15	-									
Total Expenditures by Year				\$0	\$6,231	\$288	\$0	\$58,438	\$0	\$163,970	\$13,044	\$100,612
Carry over reserve balance				\$23,252	\$24,182	\$50,924	\$86,403	\$125,283	\$107,882	\$151,251	\$31,059	\$62,053
Annual Reserve Contribution					\$31,500	\$33,075	\$34,729	\$36,465	\$38,288	\$40,203	\$42,213	\$44,324
Reserve Expenditures				\$0	(\$6,231)	(\$288)	\$0	(\$58,438)	\$0	(\$163,970)	(\$13,044)	(\$100,612)
Accumulated Reserve Funds				\$23,252	\$49,451	\$83,711	\$121,132	\$103,310	\$146,170	\$27,484	\$60,228	\$5,765
Interest Earned				\$930	\$1,473	\$2,693	\$4,151	\$4,572	\$5,081	\$3,575	\$1,826	\$1,356
Year End Reserve Balance				\$24,182	\$50,924	\$86,403	\$125,283	\$107,882	\$151,251	\$31,059	\$62,053	\$7,122
Inflation multiplier			1.05	1.00	1.05	1.10	1.16	1.22	1.28	1.34	1.41	1.48
Interest rate multiplier			0.04									

See independent auditors' report on supplementary information

20 YEAR SPREAD SHEET ALLOWING FOR INFLATION

DATE: 30-Sep-04

PER YEAR EXPENSES (adjusted for inflation\*)

#	COMPONENT NAME	TYPICAL NEXT LIFE EXP.	2004	2005	1	2006	2	2007	3	2008	4	2009	5	2010	6	2011	7	2012	8
2.01	STREETS AND ROADS	15	-																
2.02	ASPHALT PAVING	15	1	\$1,549													\$1,463		
2.03	GRAVEL PATHWAYS	5	1	\$5,182											\$9,813				
2.71	FENCING	10	4					\$58,439							\$124,957				\$71,092
2.04	SITE FIXTURES	15	2					3298							\$4,616				
2.05	LAWNS/LANDSCAPE	INDEF.	-																
3.03	RETAINING WALLS	30	-																
10.41	ENTRY FEATURES	VARIES	8																\$17,260
10.51	MAILBOXES	10	8												\$6,550				\$12,230
10.21	LAWN IRRIGATION	VARIES	-																
10.41	STORMWATER DETENTION	INDEF.	-																
10.51	EXTERIOR LIGHTING	15	-																
<b>TOTAL EXPENDITURES BY YEAR</b>																			
	CARRY OVER RESERVE BALANCE		\$29,252	\$5,231	\$288	\$69,438	\$163,970	\$13,044	\$180,832										
	ANNUAL RESERVE CONTRIBUTION		\$24,182	\$50,324	\$68,404	\$125,283	\$151,283	\$171,283	\$21,855										
	RESERVE EXPENDITURES		\$81,800	\$83,076	\$94,728	\$98,488	\$98,269	\$92,213	\$44,324										
	ACCUMULATED RESERVE FUND		\$29,252	\$48,451	\$82,133	\$105,311	\$146,171	\$27,465	\$90,229										
	INTEREST EARNED		\$926	\$1,473	\$2,883	\$4,151	\$4,572	\$5,081	\$5,575										
	YEAR END RESERVE BALANCE		\$34,182	\$50,624	\$86,404	\$126,283	\$167,863	\$161,252	\$31,093										
	INFLATION MULTIPLIER		1.00	1.05	1.10	1.16	1.22	1.28	1.34										
	INTEREST RATE MULTIPLIER																		1.48

See independent auditors' report on supplementary information