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Renaissance Ridge Homeowners Association

Financial Statements and  
Supplementary Information

Year Ended December 31, 2008

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# Renaissance Ridge Homeowners Association

## Financial Statements and Supplementary Information

Year Ended December 31, 2008

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

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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, 2008, 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, 2008, 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

July 2, 2009

Renaissance Ridge Homeowners Association

Balance Sheet - December 31, 2008

<u>Assets</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash	\$ 4,323	\$ 83,241	\$ 87,564
Assessments receivable	3,807		3,807
Other receivables	1,889		1,889
Prepaid insurance	<u>5,492</u>		<u>5,492</u>
Total assets	<u>\$ 15,511</u>	<u>\$ 83,241</u>	<u>\$ 98,752</u>
 <u>Liabilities and Fund Balances</u>			
Accounts payable	\$ 853	\$	\$ 853
Prepaid assessments	63		63
Federal income tax payable	<u>131</u>		<u>131</u>
Total liabilities	\$ 1,047	\$	\$ 1,047
Fund balances	<u>14,464</u>	<u>83,241</u>	<u>97,705</u>
Total liabilities and fund balances	<u>\$ 15,511</u>	<u>\$ 83,241</u>	<u>\$ 98,752</u>

See accompanying notes to financial statements.

Renaissance Ridge Homeowners Association

Statement of Revenues, Expenses  
and Changes in Fund Balances  
Year Ended December 31, 2008

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues:			
Regular assessments	\$ 120,000	\$	\$ 120,000
Late and other member charges	527		527
Interest		1,388	1,388
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total revenue	\$ 120,527	\$ 1,388	\$ 121,915
Expenses:			
Utilities:			
Electricity	\$ 9,237	\$	\$ 9,237
Water / sewer	10,648		10,648
Telephone / alarm	190		190
	<u>                    </u>	<u>                    </u>	<u>                    </u>
	\$ 20,075	\$	\$ 20,075
Maintenance:			
General repairs and maintenance	\$ 4,458	\$	\$ 4,458
Landscape maintenance	50,942		50,942
	<u>                    </u>	<u>                    </u>	<u>                    </u>
	\$ 55,400	\$	\$ 55,400
General and administrative:			
Management fees	\$ 7,200	\$	\$ 7,200
Insurance	5,492		5,492
Functions	1,764		1,764
Professional services	1,217		1,217
Office and miscellaneous	1,329		1,329
Bad debt	1,261		1,261
Federal income tax	131		131
	<u>                    </u>	<u>                    </u>	<u>                    </u>
	\$ 18,394	\$	\$ 18,394
Total operating expenses	\$ <u>93,869</u>	\$ <u>                    </u>	\$ <u>93,869</u>
Excess of revenues over expenses	\$ 26,658	\$ 1,388	\$ 28,046
Fund balances at beginning of year	10,331	59,328	69,659
Interfund transfers	<u>(22,525)</u>	<u>22,525</u>	<u>                    </u>
Fund balances at end of year	<u>\$ 14,464</u>	<u>\$ 83,241</u>	<u>\$ 97,705</u>

See accompanying notes to financial statements.

Renaissance Ridge Homeowners Association

Statement of Cash Flows  
Year Ended December 31, 2008

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Excess of revenues over expenses:	\$ 26,658	\$ 1,388	\$ 28,046
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in assets:			
Assessments receivable	(282)		(282)
Other receivables	(962)		(962)
Increase (decrease) in liabilities:			
Accounts payable	(254)		(254)
Prepaid assessments	131		131
Net cash provided (used) by operating activities	\$ 25,291	\$ 1,388	\$ 26,679
Cash flows from financing activities:			
Interfund balances	<u>(22,525)</u>	<u>22,525</u>	
Net increase (decrease) in cash	\$ 2,766	\$ 23,913	\$ 26,679
Cash at beginning of year	<u>13,777</u>	<u>59,328</u>	<u>73,105</u>
Cash at end of year	<u>\$ 16,543</u>	<u>\$ 83,241</u>	<u>\$ 99,784</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, 2008

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. Renaissance Ridge Homeowners Association 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, 2008, there were ten accounts in the amount of \$4,532 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, 2008

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, 2008 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 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, which aggregated approximately \$83,241 at December 31, 2008, 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 - Insurance Reserve:

At December 31, 2008, the Association did not maintain a separate insurance reserve. The Association makes payments on an annual insurance contract.

Note 5 - Management Company Transactions:

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

Note 6 - Commitments:

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

# Supplemental Information

Renaissance Ridge Homeowners Association

Supplementary Information on Future  
Major Repairs and Replacements  
Year Ended December 31, 2008

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 does take into account the effects of a five percent inflation rate and a five 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.

See independent auditors' report.

#	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
15.1.1	Lawn Irrigation	Varies										
16.4.1	Stormwater Detention	Indef.										
10.0.1	Exterior Lighting	15										
<b>Total Expenditures by year</b>				\$0	\$6,231	\$5,388	\$0	\$58,438	\$0	\$163,970	\$13,044	\$100,612
<b>Carry over reserve balance</b>				\$23,262	\$24,162	\$60,403	\$121,403	\$107,082	\$151,251	\$31,059	\$62,053	\$62,053
<b>Annual Reserve Contribution</b>					\$11,931	\$13,025	\$14,720	\$10,465	\$10,200	\$19,401	\$22,213	\$44,324
<b>Reserve Expenditures</b>				\$0	(\$1,931)	(\$200)	\$0	(\$58,438)	\$0	(\$163,970)	(\$13,044)	(\$100,612)
<b>Accumulated Reserve Funds</b>				\$23,262	\$40,461	\$83,711	\$121,132	\$103,310	\$146,170	\$27,484	\$60,228	\$5,765
<b>Interest Earned</b>				\$0.00	\$1,473	\$2,693	\$4,161	\$4,672	\$6,081	\$3,575	\$1,826	\$1,356
<b>Year End Reserve Balance</b>				\$24,162	\$60,403	\$86,403	\$125,293	\$107,082	\$151,251	\$31,059	\$62,053	\$7,122
<b>Inflation multiplier</b>			1.05	1.00	1.05	1.10	1.16	1.22	1.28	1.34	1.41	1.48
<b>Interest rate multiplier</b>			0.04									