

Cooper Crest Homeowners' Association

Audit Report Financial Statements & Supplementary Information December 31, 2017

Newman & Associates, CPA, PC
www.hoacpa.com

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
Cooper Crest Homeowners' Association
Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Cooper Crest Homeowners' Association, which comprise the Balance Sheet as of December 31, 2017, and the related Statement of Changes in Fund Balances, Statement of Revenues and Expenses and Statement of Cash Flows for the year then ended and the related notes to the financial statements.

Association's Responsibility for the Financial Statements

The Association 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cooper Crest Homeowners' Association as of December 31, 2017, 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.

Emphasis of Matter - Change in Accounting Principle – Fund Accounting

As described in Note 5 to the financial statements, the Association changed from the nonfund presentation to the fund presentation for its financial statements. Our opinion is not modified with respect to this matter.

Future Major Repairs and Replacements

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. Our opinion is not modified with respect to this matter.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America [GAAP] require that the Supplementary Information on Future Major Repairs 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, which considers it to be an essential part of financial reporting and for placing the basic financial statements and related notes 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.

Newman & Associates, CPA, PC

Bellevue, Washington

November 5, 2018

Cooper Crest Homeowners' Association

Balance Sheet
December 31, 2017

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
ASSETS			
Cash, including interest bearing deposits	\$ 33,228	\$ 100,072	\$ 133,300
Assessments Receivable	19,009		19,009
Less: Allowance for Bad Debts	(8,513)		(8,513)
TOTAL ASSETS	<u>\$ 43,723</u>	<u>\$ 100,072</u>	<u>\$ 143,796</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 2		\$ 2
Assessments Received in Advance	12,562		12,562
VIS Transfer Fees	750		750
TOTAL LIABILITIES	<u>13,314</u>		<u>13,314</u>
FUND BALANCES			
Operating	30,409		30,409
Replacement		\$ 100,072	100,072
TOTAL FUND BALANCES	<u>30,409</u>	<u>100,072</u>	<u>130,482</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 43,723</u>	<u>\$ 100,072</u>	<u>\$ 143,796</u>

See Notes to the Financial Statements

Cooper Crest Homeowners' Association

Statement of Changes in Fund Balances
For the Year Ended December 31, 2017

	OPERATING FUND	REPLACEMENT FUND	TOTAL
Balance at the Beginning of the Year	\$ 115,175		\$ 115,175
Transfer Between Funds	(6,842)	\$ 6,842	
Change in Accounting Principle	(89,612)	89,612	
Excess <Deficiency> of Revenues over Expenses	11,687	3,619	15,306
Balance at the End of the Year	<u>\$ 30,409</u>	<u>\$ 100,072</u>	<u>\$ 130,482</u>

See Notes to the Financial Statements

Cooper Crest Homeowners' Association

Statement of Revenues and Expenses
For the Year Ended December 31, 2017

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUES			
Assessments	\$ 51,125	\$ 3,475	\$ 54,600
Late Fees & Interest	1,443		1,443
Legal Fees	1,654		1,654
Fines, Penalties, Compliance	18,001		18,001
Interest		144	144
Miscellaneous	439		439
TOTAL REVENUES	72,662	3,619	76,281
EXPENSES			
Administration	3,424		3,424
Bad Debts	8,833		8,833
Insurance	894		894
Landscape	20,357		20,357
Legal	5,392		5,392
Management	6,133		6,133
Miscellaneous	2,129		2,129
Office Supplies	1,077		1,077
Water & Sewer	12,735		12,735
TOTAL EXPENSES	60,974		60,974
EXCESS <DEFICIENCY> OF REVENUES OVER EXPENSES	\$ 11,687	\$ 3,619	\$ 15,306

See Notes to the Financial Statements

Cooper Crest Homeowners' Association

Statement of Cash Flows
For the Year Ended December 31, 2017

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<i>Cash Flows from Operating Activities:</i>			
Cash from Assessments	\$ 53,378	\$ 3,475	\$ 56,853
Interest Received		144	144
Miscellaneous Income	21,537		21,537
Cash Paid for Services and Products	(51,709)		(51,709)
Net Increase <Decrease> in Cash from Operating Activities	23,206	3,619	26,825
<i>Cash Flows from Financing Activities:</i>			
Transfers Between Funds	(6,842)	6,842	
Net Increase <Decrease> in Cash	16,365	10,461	26,825
Cash, including interest bearing deposits, at the Beginning of Year	16,864	89,612	106,476
Cash, including interest bearing deposits, at the End of Year	<u>\$ 33,228</u>	<u>\$ 100,072</u>	<u>\$ 133,300</u>

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

Excess <Deficiency> of			
Revenues over Expenses	\$ 11,687	\$ 3,619	\$ 15,306
Increased Assessments Receivable	(10,309)		(10,309)
Increased Bad Debt Allowance	8,513		8,513
Increased Accounts Payable	2		2
Increased Prepaid Assessments	12,562		12,562
Increased VIS Transfer Fees	750		750
Net Increase <Decrease> in Operating Cash	<u>\$ 23,206</u>	<u>\$ 3,619</u>	<u>\$ 26,825</u>

See Notes to the Financial Statements

Cooper Crest Homeowners' Association

Notes to the Financial Statements
December 31, 2017

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Cooper Crest Homeowners' Association was incorporated March 26, 2004 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 140-unit planned residential development located in Olympia, 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 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, which approximates the net realizable value.

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, including Interest Bearing Deposits

For purposes of the statement of cash flows, Cash, including Interest Bearing Deposits, includes cash on hand, funds on deposit with financial institutions, and investments with original maturities of three months or less.

Fair Value Measurements

The three levels of the fair value hierarchy under ASC 820, Fair Value Measurements and Disclosures, are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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 issued or available to be issued.

Cooper Crest Homeowners' Association

Notes to the Financial Statements
December 31, 2017

NOTE 2 - REPLACEMENT FUNDING PROGRAM

The Association is currently funding 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. The funding is based upon a professional reserve study 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 assessments, pass special assessments, or delay replacement if these funds are found to be inadequate for all future costs.

NOTE 3 - FEDERAL 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 \$390. 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 - CHANGE IN ACCOUNTING PRINCIPLE

In the prior year, the financial statements were not presented on the fund basis. While fund basis presentation is not required, it is recommended, and it is industry standard. Thus, in the current year, the transition to separate Operating and Replacement Funds was implemented. The beginning Replacement Fund balance has been booked as a "Change in Accounting Principle" as it is an adjustment from one approved method under generally accepted accounting principles to another.

December 31, 2017
 Supplementary Information on Future Major Repairs
 and Replacements
 (Unaudited)

A "do-it-yourself" reserve study kit was prepared on November 11, 2013 by Association Reserves, Inc. for the period January 1, 2014 to December 31, 2014 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on current estimated replacement costs. Funding requirements consider an annual inflation rate of 3.00% and interest of 0.00%, net of taxes, on amounts funded for future major repairs and replacements. The following table is based on the study and presents significant information about the components of common property.

Component	Estimated Remaining Useful Life in Years	Estimated Current Replacement Costs	Fund Balance at Year End
Retention Ponds (3)	7	\$ 25,827	
Sign	12	4,277	
Fencing	42	34,607	
Mailboxes	12	11,406	
Sidewalks	7	14,758	
Storage Shed	9	5,219	
Private Roads	22	38,322	
TOTAL			\$ 100,072

Percent Funded as of January 1, 2014 - 41.8%