

SECTOR 2A AT SNOHOMISH
CASCADE ASSOCIATION

INDEPENDENT AUDITOR'S REPORT,
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
Sector 2A at Snohomish Cascade Association
Snohomish, Washington

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of Sector 2A at Snohomish Cascade Association, which comprise the balance sheet as of December 31, 2022, and the related statements of revenues and expenses, changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sector 2A at Snohomish Cascade Association as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of Sector 2A at Snohomish Cascade Association and to meet other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Financial Statements

Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sector 2A at Snohomish Cascade Association to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibility for The Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for

one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Sector 2A at Snohomish Cascade's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sector 2A at Snohomish Cascade's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on pages 11 - 12 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, 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. 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.

McGoorty Eisenman Inc PS

January 10, 2024

SECTOR 2A AT SNOHOMISH CASCADE ASSOCIATION
BALANCE SHEET
YEAR ENDED DECEMBER 31, 2022

ASSETS

	Operating Fund	Replacement Fund	Total
CURRENT ASSETS			
Cash and cash equivalents	\$ 92,807	\$ -	\$ 92,807
Certificate of deposit		16,947	16,947
Accounts receivable, net of allowance for doubtful accounts	6,247		6,247
Prepaid insurance and postage	3,236		3,236
Interfund borrowings	(25,242)	25,242	-
Total current assets	77,048	42,189	119,237
 TOTAL ASSETS	\$ 77,048	\$ 42,189	\$ 119,237

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES			
Accounts payable	\$ 3,689	\$ -	\$ 3,689
 TOTAL LIABILITIES	 3,689	 -	 3,689
 FUND BALANCES	 73,359	 42,189	 115,548
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 77,048	 \$ 42,189	 \$ 119,237

See accompanying notes to the financial statements.

SECTOR 2A AT SNOHOMISH CASCADE ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES
YEAR ENDED DECEMBER 31, 2022

	Operating Fund	Replacement Fund	Total
REVENUES			
Member assessments	\$ 102,505	\$ 30,875	\$ 133,380
Bad debt recovery	3,630		3,630
Other	1,098		1,098
Interest income	26	8	34
 Total revenues	 107,259	 30,883	 138,142
EXPENSES			
Common area and landscape maintenance	61,763		61,763
Electricity	267		267
Garbage	1,016		1,016
Hospitality	622		622
Insurance	10,092		10,092
Legal and accounting	10,338		10,338
Office	784		784
Water and sewer	6,879	-	6,879
 Total expenses	 <u>91,761</u>	 <u>-</u>	 <u>91,761</u>
 EXCESS REVENUES OVER EXPENSES	 <u><u>\$ 15,498</u></u>	 <u><u>\$ 30,883</u></u>	 <u><u>\$ 46,381</u></u>

See accompanying notes to the financial statements.

SECTOR 2A AT SNOHOMISH CASCADE ASSOCIATION
STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2022

	Operating Fund	Replacement Fund	Total
BEGINNING FUND BALANCES	\$ 57,861	\$ 11,306	\$ 69,167
EXCESS REVENUES OVER EXPENSES	15,498	30,883	46,381
ENDING FUND BALANCES	\$ 73,359	\$ 42,189	\$ 115,548

See accompanying notes to the financial statements.

SECTOR 2A AT SNOHOMISH CASCADE ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2022

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess revenues over expenses	\$ 15,498	\$ 30,883	\$ 46,381
Adjustments to reconcile excess revenues over expenses to net cash provided by operating activities:			
Increase in accounts receivable	(6,247)		(6,247)
Increase in prepaid insurance and postage	(89)		(89)
Increase in accounts payable	3,609	-	3,609
Net cash provided by operating activities	12,771	30,883	43,654
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest reinvested in certificate of deposit	-	(9)	(9)
Net cash used by investing activities	-	(9)	(9)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Interfund borrowings	30,874	(30,874)	-
Net cash provided (used) by financing activities	30,874	(30,874)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	43,645	-	43,645
CASH AND CASH EQUIVALENTS, Beginning of year	49,162	-	49,162
CASH AND CASH EQUIVALENTS, End of year	\$ 92,807	\$ -	\$ 92,807

See accompanying notes to the financial statements.

SECTOR 2A AT SNOHOMISH CASCADE ASSOCIATION
FOOTNOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022

NOTE 1: NATURE OF ORGANIZATION

Sector 2A at Snohomish Cascade Association (the Association) was incorporated July 1, 1997, in the State of Washington. The Association was initially named Gold Creek Sector 2A at Snohomish Cascade Association but was later changed to avoid confusion with a similarly named association. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of 247 residential units in Snohomish, Washington.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Association prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; accordingly, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use 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 the 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

SECTOR 2A AT SNOHOMISH CASCADE ASSOCIATION
FOOTNOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dues and Member Assessments Receivable

Association members are subject to yearly assessments to provide funds for the Association's operating expense, future capital acquisition, and major repairs and replacements. Assessments receivable at the balance sheet date represent assessments, fines and penalties due from homeowners. Assessments are due annually on January 1st, and interest is charged on past due balances after 60 days. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are in arrears. Excess assessments at year-end are retained by the Association for use in future years or transferred to the replacement fund. At December 31, 2022, accounts receivable of \$5,836 were aged past 60 days; however, the Association considers the balances fully collectible and as such no allowance is deemed necessary.

Income Taxes

Homeowner associations may be taxed either as a homeowner association or as a regular corporation. For the year ended December 31, 2022, the Association was taxed as a homeowner association and filed Form 1120H. As a homeowner association, membership income is exempt from taxation, and the Association is taxed only on its non-membership income, such as interest earnings.

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual homeowners in common and not by the Association.

At December 31, 2022, property not capitalized by the Association consists of land, a ball field, play equipment, detention ponds, sidewalks, access roads, fences, landscaped areas and other miscellaneous items. Maintenance, repairs, replacements, improvements and otherwise management of the common areas are the responsibility of the Association.

Interfund Borrowing

The Operating Fund has an interfund payable to the Replacement Fund of \$25,242 at December 31, 2022.

SECTOR 2A AT SNOHOMISH CASCADE ASSOCIATION
FOOTNOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

The Association identifies a contract with a customer when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable. Revenue is measured as the amount of consideration expected to be received in exchange for transferring goods or provided services identified in the contract. The performance obligation related to dues and fees is completely satisfied within the fiscal year, and any dues and fees collected prior to the year in which they apply are deferred and recognized over the periods to which they relate.

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 disclosures 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.

Concentration of Credit and Market Risk

The Association has one main source of revenue which consists of membership dues from the homeowners. Assessments may be secured by a lien on members' houses.

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 aggregate approximately \$42,000 at December 31, 2022, are accounted for as a separate fund and are not generally available for operating purposes.

The Association's Board of Directors conducted a study in 2022 to estimate the remaining useful lives and the replacement costs of the common property components. The estimates were obtained by an independent contractor. The table included in the unaudited Supplementary Information on Future Repairs and Replacements is based on that study.

SECTOR 2A AT SNOHOMISH CASCADE ASSOCIATION
FOOTNOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022

NOTE 3: FUTURE MAJOR REPAIRS AND REPLACEMENTS (continued)

The Association is funding major repairs and replacements of common property components over the estimated useful lives of the components based on the study's estimates of replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from estimated future expenditures, and the variations may be material.

Therefore, amounts accumulated in the replacements fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, however, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

NOTE 5: SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 10, 2024, the date on which the financial statements were available for issue.

SUPPLEMENTARY INFORMATION

SECTOR 2A AT SNOHOMISH CASCADE ASSOCIATION
 SUPPLEMENTARY INFORMATION ON FUTURE REPAIRS AND
 REPLACEMENTS (UNAUDITED)
 DECEMBER 31, 2022

The Association’s Board of Directors conducted a study in 2022 to estimate the remaining useful lives and the replacement costs of the components of the common property. The estimates were obtained by an independent contractor who inspected the property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation 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.

Component:	Estimated Remaining Useful Life (Years) as of <u>12/31/22</u>	Estimated Current Replacement <u>Costs</u>
Asphalt	1	\$ 11,928
Concrete curb	1	1,946
Fence - paint/stain	1	39,597
Fence - replace	1	7,525
Irrigation valves	1	3,244
Landscaping	1	14,806
Pavers & retaining walls	1	2,682
Playground replenish & replacements	1	6,240
Recreation benches & picnic table	1	12,512
Retaining Walls	1	<u>924</u>
		101,404
Irrigation valves	2	1,551
Irrigation valves	3	1,598
Playground structure, surface & edging	3	<u>69,415</u>
		71,013
Irrigation valves	4	1,646
Playground surface	4	<u>1,923</u>
		3,569

Continued

SECTOR 2A AT SNOHOMISH CASCADE ASSOCIATION
 SUPPLEMENTARY INFORMATION ON FUTURE REPAIRS AND
 REPLACEMENTS (UNAUDITED)
 DECEMBER 31, 2022

Continued

Irrigation piping & valves	5	59,475
Lights	5	3,208
Stormwater pond refurbish	5	<u>26,078</u>
		88,761
Asphalt	6	1,669
Concrete curb repair	6	2,256
Fence - paint/stain	6	45,903
Irrigation valves	6	1,746
Landscaping	6	17,164
Playground surface	6	<u>1,621</u>
		70,359
Irrigation valves	7	1,798
Playground surface	7	<u>2,102</u>
		3,900
Irrigation controllers and valves	8	6,126
Stormwater pond refurbish	8	<u>16,385</u>
		22,511
Irrigation valves	9	1,908
Playground surface	9	<u>1,771</u>
		3,679
Irrigation controllers, piping & valves	10	73,483
Parking bollards	10	4,535
Playground surface	10	<u>2,296</u>
		<u>80,314</u>
Total		<u>\$ 447,061</u>