

SECTOR 2A AT SNOHOMISH
CASCADE ASSOCIATION

INDEPENDENT AUDITORS' REPORT,
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2015

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Sector 2A at Snohomish Cascade Association, which comprise the balance sheet as of December 31, 2015, 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.

Management's Responsibility 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.

Auditors' 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 auditors' 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 and the Board of Directors, 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 Sector 2A at Snohomish Cascade Association as of December 31, 2015, 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.

continued

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 page 11 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 PA

December 2, 2016

SECTOR 2A AT SNOHOMISH CASCADE ASSOCIATION
 BALANCE SHEET
 YEAR ENDED DECEMBER 31, 2015

ASSETS

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 42,738	\$ -	\$ 42,738
Certificate of deposit		50,782	50,782
Accounts receivable	3,750		3,750
Due from operating fund		15,323	15,323
Due to replacement fund	(15,323)		(15,323)
Prepaid insurance	2,332	-	2,332
Total current assets	<u>33,497</u>	<u>66,105</u>	<u>99,602</u>
 TOTAL ASSETS	<u>\$ 33,497</u>	<u>\$ 66,105</u>	<u>\$ 99,602</u>

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES			
Accounts payable	\$ 1,606	\$ -	\$ 1,606
 TOTAL LIABILITIES	<u>1,606</u>	<u>-</u>	<u>1,606</u>
 FUND BALANCES	<u>31,891</u>	<u>66,105</u>	<u>97,996</u>
 TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 33,497</u>	<u>\$ 66,105</u>	<u>\$ 99,602</u>

See accompanying notes to the financial statements.

SECTOR 2A AT SNOHOMISH CASCADE ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES
YEAR ENDED DECEMBER 31, 2015

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
REVENUES			
Member assessments	\$ 78,299	\$ 11,115	\$ 89,414
Special assessments		9,386	9,386
Other	5,947		5,947
Interest income	<u>27</u>	<u>96</u>	<u>123</u>
 Total revenues	 84,273	 20,597	 104,870
EXPENSES			
Bad debt expense	1,700		1,700
Common area and landscape maintenance	42,257		42,257
Electricity	313		313
Garbage	996		996
Insurance	7,774		7,774
Legal and accounting	6,606		6,606
Major repairs and replacements		39,885	39,885
Miscellaneous	14		14
Newsletter	79		79
Office	3,837		3,837
Water and sewer	<u>5,553</u>	<u>-</u>	<u>5,553</u>
 Total expenses	 <u>69,129</u>	 <u>39,885</u>	 <u>109,014</u>
 EXCESS OF REVENUES OVER EXPENSES	 <u>\$ 15,144</u>	 <u>\$ (19,288)</u>	 <u>\$ (4,144)</u>

See accompanying notes to the financial statements.

SECTOR 2A AT SNOHOMISH CASCADE ASSOCIATION
STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2015

	Operating Fund	Replacement Fund	Total
BEGINNING FUND BALANCES	\$ 16,747	\$ 85,393	\$ 102,140
EXCESS OF REVENUES OVER EXPENSES	15,144	(19,288)	(4,144)
ENDING FUND BALANCES	\$ 31,891	\$ 66,105	\$ 97,996

See accompanying notes to the financial statements.

SECTOR 2A AT SNOHOMISH CASCADE ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess of revenues over expenses	\$ 15,144	\$ (19,288)	\$ (4,144)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Increase in accounts receivable	2,087		2,087
Increase in accounts payable	<u>(1,752)</u>	<u>-</u>	<u>(1,752)</u>
Net cash provided by operating activities	15,479	(19,288)	(3,809)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Redemption of certificate of deposit		20,000	20,000
Interest reinvested in certificate of deposit	<u>-</u>	<u>(95)</u>	<u>(95)</u>
Net cash used by investing activities	-	19,905	19,905
CASH FLOWS FROM FINANCING ACTIVITIES:			
Interfund borrowings	<u>617</u>	<u>(617)</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>617</u>	<u>(617)</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	16,096	-	16,096
CASH AND CASH EQUIVALENTS, Beginning of year	<u>26,642</u>	<u>-</u>	<u>26,642</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 42,738</u>	<u>\$ -</u>	<u>\$ 42,738</u>

See accompanying notes to the financial statements.

SECTOR 2A AT SNOHOMISH CASCADE ASSOCIATION
FOOTNOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

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

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.

Member Assessments

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. It is the opinion of the board of directors that the Association will ultimately prevail against homeowners with delinquent assessments and, accordingly, no allowance for uncollectible accounts is deemed necessary.

Interest Income

Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

SECTOR 2A AT SNOHOMISH CASCADE ASSOCIATION
FOOTNOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Income Taxes

Homeowner associations may be taxed either as a homeowner association or as a regular corporation. For the year ended December 31, 2015, 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.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal income tax returns are subject to examination by the Internal Revenue Service, generally three years after they were filed.

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, 2015, 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.

SECTOR 2A AT SNOHOMISH CASCADE ASSOCIATION
FOOTNOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 \$51,000 at December 31, 2015, are held in a separate account and are not generally available for operating purposes.

The Association's Board of Directors conducted a study in 2016 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.

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.

SECTOR 2A AT SNOHOMISH CASCADE ASSOCIATION
FOOTNOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

NOTE 4: RELATED PARTY TRANSACTIONS

The Association is managed by the board of directors which consists of uncompensated volunteer homeowner members of the Association.

NOTE 5: SPECIAL ASSESSMENT

The Association collected a special assessment of \$9,386 in the year ended December 31, 2015 to be used to repay borrowings in 2011 from the replacement fund.

NOTE 6: SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 2, 2016, 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, 2015

The Association's Board of Directors conducted a study in 2016 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.

	Estimated Remaining Useful Life (Years) as of <u>12/31/15</u>	Estimated Current Replacement <u>Costs</u>
Component:		
Wood fence replacement	1	\$ 87,992
Chain link fence for detention ponds	2	8,000
Mailbox Replacement	2 - 5	25,200
Sprinkler System	4	15,000
Tot toy upgrade	5	40,000
Fence Painting/Repair	10	60,000
Service detention ponds	12	50,000
Wood fence replacement	20	150,000
Chain link fence for detention ponds	21	15,000
Mailbox Replacement	26	36,000
Tot toy upgrade	26	50,000
Sprinkler System	27	25,000
Fence Painting/Repair	41	<u>75,000</u>
Total		<u>\$ 637,192</u>