

**Eagle Ridge (Spokane) Homeowners Association
Financial Statements
For the Year Ended December 31, 2019**



NEWMAN
Certified Public Accountant, PC

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Independent Auditor's Report

To the Board of Directors of Eagle Ridge (Spokane) Homeowners Association

We have audited the accompanying financial statements of Eagle Ridge (Spokane) Homeowners Association (the "Association") which comprise the statement of assets, liabilities and fund balances - modified cash basis as of December 31, 2019, and the related statement of revenues, expenses, and changes in fund balance and cash flows - modified cash basis, 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 the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal controls 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 assets, liabilities, and fund balances of Eagle Ridge (Spokane) Homeowners Association as of December 31, 2019, and its revenue and expenses and changes in fund balances, and cash flows - modified cash basis, for the year then ended, in accordance with the modified cash basis of accounting described in Note 2.

Emphasis of a Matter on Future Major Repairs and Replacements

Our audit was made for the purpose of forming an opinion on the basic financial statement, taken as a whole. We have not applied procedures to determine whether the funds designated for future repairs and replacements as discussed in Note 4 are adequate to meet such future costs, because such determination is outside the scope of our audit. Our opinion is not modified with respect to this matter.

Disclaimer of Opinion of Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Supplementary Information on Future Repairs and Replacements 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 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.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Newman Certified Public Accountant, PC.

Eagle Ridge (Spokane) Homeowners Association
Statement of Assets and Fund Balances - Modified Cash Basis
December 31, 2019

	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalents	\$ 174,816	\$ 312,475	\$ 487,291
Fixed assets	16,995		16,995
Accumulated depreciation	(13,527)		(13,527)
Due from (to) fund	33,331	(33,331)	-
Total assets	\$ 211,615	\$ 279,144	\$ 490,759
Total liabilities			
Fund balances	211,615	279,144	490,759
Total liabilities and fund balances	\$ 211,615	\$ 279,144	\$ 490,759

The accompanying notes are an integral part of the financial statements
(See Independent Auditor's Report)

Eagle Ridge (Spokane) Homeowners Association
Statement of Revenue and Expenses and Changes in Fund Balances
For the Year Ended December 31, 2019

	Operating Fund	Replacement Fund	Total
Revenues			
Owners assessments	\$ 614,349	\$ 90,997	\$ 705,346
Late fees	13,993		13,993
Interest		1,770	1,770
Other member income	5,607		5,607
Total revenues	<u>633,949</u>	<u>92,767</u>	<u>726,716</u>
Expenses			
Utilities			
Electricity and gas	46,814		46,814
Water and sewer	52,920		52,920
Trash removal	2,927		2,927
	<u>102,661</u>	<u>-</u>	<u>102,661</u>
Maintenance			
Landscape and irrigation	150,226		150,226
Tree trimming and removal	27,014		27,014
Common area repairs and maintenance	26,675		26,675
Capital improvements		33,331	33,331
	<u>203,915</u>	<u>33,331</u>	<u>237,246</u>
Administrative			
Insurance	21,695		21,695
Management	60,642		60,642
Administrative expense	20,772		20,772
Depreciation expense	1,486		1,486
Payroll and related expenses	7,295		7,295
Legal and professional	13,124		13,124
Community and social activities	24,684		24,684
Licenses, permits, fees and taxes	137		137
Property tax	1,412		1,412
	<u>151,247</u>	<u>-</u>	<u>151,247</u>
Total expenses	<u>457,823</u>	<u>33,331</u>	<u>491,154</u>
Excess (deficit) of revenues over (under) expenses	176,126	59,436	235,562
Beginning fund balances	35,489	219,708	255,197
Ending fund balances	<u>\$ 211,615</u>	<u>\$ 279,144</u>	<u>\$ 490,759</u>

The accompanying notes are an integral part of the financial statements
(See Independent Auditor's Report)

Eagle Ridge (Spokane) Homeowners Association
Notes to Financial Statements
For the Year Ended December 31, 2019

1. Organization

Eagle Ridge (Spokane) Homeowners Association (the "Association") was incorporated on July 10, 1996 as a nonprofit corporation under the laws of Washington, for the purposes of maintaining and preserving common property. The Association consists of 1,150 residential homes and is located in Spokane, Washington. At build out it is anticipated the development will consist of 1,200 residential homes.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under the modified cash basis, transactions are recognized as either cash receipts or disbursements. The modified cash basis differs from generally accepted accounting principles primarily because the effects of outstanding dues, receivables, prepaid dues, and obligations unpaid at the date of the financial statements are not included on the statement of assets, liabilities, and fund balances.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the board of directors 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 significantly from those estimates.

Fund Accounting

The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the board of directors and property manager. Disbursements from the replacement fund generally may be made only for designated purposes.

Capital Assets and Depreciation Policy

The Association has not capitalized real and personal common area property contributed by the developer. Replacements and improvements to real property are also not capitalized; rather, they are charged to the respective fund in the period the cost is incurred. Significant personal property assets are capitalized and depreciated over their estimated lives using straight-line depreciation.

Cash and Cash Equivalents

Cash and cash equivalents include the Association's cash, checking accounts, money market funds and investments in certificates of deposit with original maturities of 90 days or less.

Subsequent Events

Subsequent events have been evaluated through August 03, 2020, which is the date the financial statements were available to be issued.

Eagle Ridge (Spokane) Homeowners Association
Notes to Financial Statements
For the Year Ended December 31, 2019

Concentration of Credit Risk

The Association maintains bank accounts with balances that exceed FDIC federal insurance of \$250,000. The financial institution may carry private insurance, which may or may not be sufficient to reimburse for any losses. At December 31, 2019, \$231,118 was exposed to risk.

3. Assessments and Assessments Receivable

Association members are subject to quarterly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The Association's governing documents provide for various collection remedies for delinquent assessments and fees, including filing of liens on an owner's unit, foreclosing on a unit owner, and obtaining a legal judgment on an owner's other assets. Any excess operating funds are retained at the end of the fiscal year for use in future periods. After the Association has exhausted all efforts to collect delinquent accounts, the Board of Directors may elect to write off uncollectible balances.

4. Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate bank accounts and are generally not available for expenditures for normal operations.

The board of directors conducted a reserve study to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on this study.

The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to its governing documents, to increase regular assessments or to levy special assessments, or it may delay major repairs and replacements until funds are available.

5. 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 the 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.

Eagle Ridge (Spokane) Homeowners Association
Notes to Financial Statements
For the Year Ended December 31, 2019

6. Due From (To) Fund

The balance of the Due from (to) fund accounts at December 31, 2019 totaled \$33,331. The balance is comprised of replacement fund expenses paid by the operating fund.

7. Accounts Receivable and Prepaid Assessments

As of December 31, 2019, the Association's owners' assessments balance of \$614,349 includes \$39,954 of assessments that were prepaid by members for the 2020 fiscal year. Under Generally Accepted Accounting Principles, such prepaid assessments would have been presented as a liability and excluded from revenues. The Association's accounting records indicate that assessments receivable as of December 31, 2019 totaled \$52,883. Assessments receivable have not been included in revenues or presented on the statement of assets, liabilities, and fund balances under the modified cash basis of accounting. Under the full accrual basis of accounting, \$52,883 of member income and accounts receivable would have been presented in these financial statements.

Eagle Ridge (Spokane) Homeowners Association
Supplementary Information on Future Major Repairs and Replacements
December 31, 2019
(Unaudited)

The Association's Board of Directors, in conjunction with a reserve study expert, conducted a reserve study dated September 27, 2018 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. Estimated current 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 and replacement.

The following information is based on the study and presents significant information about the components of common property.

Study Component	Estimated remaining useful lives	Estimated current replacement costs
Sidewalk spot repairs	2	\$ 32,897
Sealcoat fire lanes and trails	0	17,663
Monument letters	2	2,000
Eagle Ridge and Shelby Ridge pump and motors	3	12,535
Fencing	0-28	436,128
Sport court park	9	10,244
Splash pad	0-1	30,797
Street lights	0-4	100,950
Sewage lift pump and motor	1-15	15,518
Playsets	2-6	27,000
Benches, tables, garbage, pots	1-13	33,000
Amphitheater	12	12,000
Movie screen	10	9,849
Mailboxes	1-12	51,200
John Deere gator	6	18,000
Wood chipping	0	9,139
Miscellaneous	1-38	23,386
		<u>\$ 842,306</u>

See the Balance Sheet for replacement fund cash, cash equivalents and investments balances at December 31, 2019.