

**SUNSET RIDGE  
HOMEOWNERS' ASSOCIATION**  
For the Year Ended  
December 31, 2008

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INDEPENDENT AUDITORS' REPORT  
AND  
FINANCIAL STATEMENTS

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**Independent Auditors' Report**

To the Board of Directors  
**Sunset Ridge Homeowners' Association**  
Washougal, Washington

We have audited the accompanying balance sheet of **Sunset Ridge Homeowners' Association** as of December 31, 2008, and the related statements of revenues and expenses, changes in fund balances, and cash flows for the year then ended. These financial statements are the responsibility of **Sunset Ridge Homeowners' Association's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

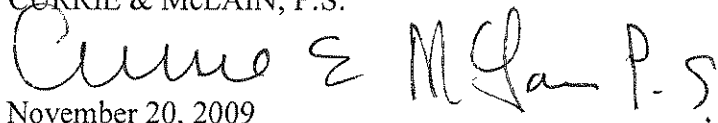
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The supplementary information on future major repairs and replacements on page 9 is not a required part of the basic financial statements of **Sunset Ridge Homeowners' Association**, 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.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of **Sunset 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.

Information for the year ended December 31, 2007 is presented for comparative purposes only and was extracted from the financial statements using a non-fund accounting presentation for that year, on which we expressed an unqualified opinion in our report dated October 14, 2008.

CURRIE & McLAIN, P.S.

  
November 20, 2009

**SUNSET RIDGE HOMEOWNERS' ASSOCIATION**  
**BALANCE SHEET**  
December 31, 2008

	Operating Fund	Reserve Fund	2008 Total	2007 Total (For comparative purposes only)
<b>ASSETS</b>				
Cash	\$ 1,094	\$ 41,261	\$ 42,355	\$ 57,461
Members' assessments receivable, less allowance for doubtful accounts of \$10,274 and \$0	39,226	-	39,226	19,065
Due from (to) funds	(2,992)	2,992	-	-
Fixed assets, net of accumulated depreciation of \$62,422 and \$43,904	<u>139,873</u>	<u>-</u>	<u>139,873</u>	<u>154,064</u>
<b>TOTAL ASSETS</b>	<u>\$ 177,201</u>	<u>\$ 44,253</u>	<u>\$ 221,454</u>	<u>\$ 230,590</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Accounts payable	\$ 3,915	\$ -	\$ 3,915	\$ 327
Bank overdraft	-	-	-	3,627
Prepaid assessments	6,657	-	6,657	-
Income tax payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>66</u>
Total liabilities	<u>10,572</u>	<u>-</u>	<u>10,572</u>	<u>4,020</u>
Total fund balances	<u>166,629</u>	<u>44,253</u>	<u>210,882</u>	<u>226,570</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 177,201</u>	<u>\$ 44,253</u>	<u>\$ 221,454</u>	<u>\$ 230,590</u>

See accompanying notes to financial statements.

**SUNSET RIDGE HOMEOWNERS' ASSOCIATION**

**STATEMENT OF REVENUES AND EXPENSES**

For the Year Ended

December 31, 2008

	Operating Fund	Reserve Fund	2008 Total	2007 Total (For comparative purposes only)
<b>REVENUES</b>				
Members' assessments	\$ 166,953	\$ 31,717	\$ 198,670	\$ 190,598
Interest income	-	767	767	1,867
Late fee and NSF fees	20,527	-	20,527	11,403
Clubhouse rental and other income	<u>1,877</u>	<u>-</u>	<u>1,877</u>	<u>1,615</u>
Total revenues	<u>189,357</u>	<u>32,484</u>	<u>221,841</u>	<u>205,483</u>
<b>MAINTENANCE AND REPAIR EXPENSES</b>				
Clubhouse maintenance and improvement	22,337	16,609	38,946	29,177
Landscaping maintenance and improvement	28,347	-	28,347	69,534
Parks and trails maintenance and improvement	18,917	-	18,917	-
Playground repairs	-	-	-	351
Security monitoring	-	-	-	588
Gas and pool expense	<u>19,364</u>	<u>10,689</u>	<u>30,053</u>	<u>14,372</u>
Total maintenance and repair expenses	<u>88,965</u>	<u>27,298</u>	<u>116,263</u>	<u>114,022</u>
<b>OPERATING EXPENSES</b>				
Accounting fees	3,775	-	3,775	3,125
Depreciation	18,519	-	18,519	17,273
Clubhouse manager fees	30,860	-	30,860	30,476
Insurance	4,436	-	4,436	4,682
Legal fees	5,285	-	5,285	2,487
Licenses and fees	10	-	10	570
Management fees	23,677	-	23,677	22,609
Public events	2,829	-	2,829	3,038
Collection fee	-	-	-	300
Office expense	6,567	161	6,728	4,405
Utilities	12,951	-	12,951	11,329
Cable TV and internet	1,633	-	1,633	1,798
Bad debt expense	10,274	-	10,274	147
Federal tax provision	-	-	-	66
Website expense	<u>289</u>	<u>-</u>	<u>289</u>	<u>348</u>
Total operating expenses	<u>121,105</u>	<u>161</u>	<u>121,266</u>	<u>102,653</u>
Total expenses	<u>210,070</u>	<u>27,459</u>	<u>237,529</u>	<u>216,675</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	<u>\$ (20,713)</u>	<u>\$ 5,025</u>	<u>\$ (15,688)</u>	<u>\$ (11,192)</u>

See accompanying notes to financial statements.

**SUNSET RIDGE HOMEOWNERS' ASSOCIATION**  
**STATEMENT OF CHANGES IN FUND BALANCES**

For the Year Ended  
December 31, 2008

	Operating Fund	Reserve Fund	2008 Total	2007 Total (For comparative purposes only)
BEGINNING FUND BALANCES	\$ 169,109	\$ 57,461	\$ 226,570	\$ 237,762
Excess (deficiency) of revenues over expenses	(20,713)	5,025	(15,688)	(11,192)
Interfund transfers	<u>18,233</u>	<u>(18,233)</u>	<u>-</u>	<u>-</u>
ENDING FUND BALANCES	<u>\$ 166,629</u>	<u>\$ 44,253</u>	<u>\$ 210,882</u>	<u>\$ 226,570</u>

See accompanying notes to financial statements.

**SUNSET RIDGE HOMEOWNERS' ASSOCIATION**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended  
December 31, 2008

	Operating Fund	Reserve Fund	2008 Total	2007 Total (For comparative purposes only)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Excess (deficiency) of revenues over expenses	\$ (20,713)	\$ 5,025	\$ (15,688)	\$ (11,192)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:				
Depreciation	18,519	-	18,519	17,273
Bad debt expense	10,274	-	10,274	-
(Increase) decrease in assets:				
Members' dues receivable	(30,436)	-	(30,436)	(4,408)
Due from (to) fund	16,898	(16,898)	-	-
Increase (decrease) in liabilities:				
Accounts payable	3,588	-	3,588	(9,456)
Assessments received in advance	6,657	-	6,657	(4,724)
Income tax payable	(66)	-	(66)	66
Net cash provided (used) by operating activities	4,721	(11,873)	(7,152)	(12,441)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of fixed assets	(4,327)	-	(4,327)	(32,570)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Interfund transfers	4,327	(4,327)	-	-
<b>INCREASE (DECREASE) IN CASH</b>	4,721	(16,200)	(11,479)	(45,011)
<b>CASH BEGINNING</b>	(3,627)	57,461	53,834	98,845
<b>CASH ENDING</b>	<u>\$ 1,094</u>	<u>\$ 41,261</u>	<u>\$ 42,355</u>	<u>\$ 53,834</u>
<b>SUPPLEMENTAL DISCLOSURES</b>				
Cash paid during period for:				
Interest			\$0	\$0
Federal income taxes			\$66	\$0

The 2007 cash balance of \$53,834 is a combination of cash reserves of \$57,461 and a bank overdraft of \$3,627 in the operating account.

**SUNSET RIDGE HOMEOWNERS' ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of the Organization

**Sunset Ridge Homeowners' Association** is a nonprofit Washington organization established in 2000 as a homeowner association for the purpose of providing managerial and operational services on behalf of the homeowners. The Association is responsible for preserving and maintaining the common property. The development is located in Washougal, Washington and will consist of 368 residential homes. At December 31, 2008, 365 homes were completed and sold.

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 financial resources available for the general operations of the Association.

Reserve Fund—This fund is used to accumulate financial resources designated for future major repairs and replacements.

Members' Assessments

Association members are subject to assessments to provide funds for the Association's operating expenses and major repairs and replacements. Members' dues receivable at the balance sheet date represent fees due from homeowners. The Association's policy is to place liens on the real property owned by the homeowner whose assessments have not been received on a timely basis. Assessments over 90 days past due are turned over to the Association's law firm for collection.

At December 31, 2008, the Association had \$49,500 in assessments receivable, of which \$35,062 was over 90 days delinquent. For 2008, management believed an allowance for doubtful accounts was necessary in the amount of \$10,274.

Assessments received in advance represent prepaid dues and are retained by the Association for use in the succeeding year.

Income Taxes

Homeowner associations may be taxed either as residential associations or as regular corporations. For the year ended December 31, 2008, the Association elected to be taxed as a residential association. Under this election, the Association is taxed on its nonexempt function income, such as interest earnings, at a flat rate of 30%. There was no tax due at December 31, 2008.

**SUNSET RIDGE HOMEOWNERS' ASSOCIATION**

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Flows

Cash and cash equivalents are defined as currency, demand deposits and certificates of deposits with banks and financial institutions. For the year ending December 31, 2008, the Association did not engage in any noncash investing or financing activities.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

The Association capitalizes all property and equipment to which it holds title or has other evidence of ownership. The Association currently holds title to uncapitalized common property that consists of a clubhouse, perimeter grounds and private trails, a wetland area as well as capitalized playground and clubhouse equipment. Capitalized common property is depreciated over its estimated useful life using a straight-line method of depreciation. Property and equipment is depreciated using the straight line method of depreciation.

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	<u>2008</u>
Security and pool systems	\$ 30,221
Office equipment	1,570
Playground equipment and signs	62,888
Clubhouse equipment	72,941
Leasehold improvements	28,950
Sprinkler system	<u>5,725</u>
	202,295
Less accumulated depreciation	<u>(62,422)</u>
	<u>\$139,873</u>

Future Major Repairs and Replacements

The Association's governing documents require the Association to finance estimated future major repairs and replacements through common assessments. A reserve study was conducted in November 2006 to determine the remaining useful lives of the components of common property and to estimate the costs of major repairs and replacements that may be required in the future. Currently, when funds are required for major repairs and replacements, the Association plans to have an adequate reserve fund to pay for them or board approval to increase maintenance assessments or delay repairs and replacements until funds are available. See Schedule I, page 9.

Cash designated for repairs and replacement at December 31, 2008 was \$41,261. See Note 2.

**SUNSET RIDGE HOMEOWNERS' ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2008

**NOTE 2 – DUE FROM (TO) FUND**

The Association did not make the scheduled reserve assessment transfers into the reserve fund and also paid for reserve expenditures from the operating fund during 2008. The net result was a balance of \$2,992 due to reserves at December 31, 2008.

During 2007, the Association's operating fund paid for playground equipment totaling \$28,593. The board determined that the reserve fund should reimburse the operating fund for \$13,906 of the cost, which was transferred from reserves on January 30, 2008.

**NOTE 3 – MANAGEMENT AGREEMENT**

The Association signed a one-year renewable contract, beginning January 1, 2008, with Invest West Management for the purpose of assessment collections, preparation of an annual budget, other administrative responsibilities and the enforcement of the Association's covenants, conditions and restrictions. The Association may terminate the contract at anytime without cause, with not less than 90 days prior written notice.

**NOTE 4 – INTERFUND TRANSFERS**

As part of the \$18,233 in interfund transfers, the Association purchased clubhouse equipment with reserve funds for \$4,327 and transferred the capitalized asset over to the operating fund.

Capitalized assets are generally recorded in the Association's operating fund. It is common practice to record this transaction by recording a transfer from the replacement fund to the operating fund.

## **SUPPLEMENTARY INFORMATION**

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**SUNSET RIDGE HOMEOWNERS' ASSOCIATION**  
**SCHEDULE OF FUTURE REPAIRS AND REPLACEMENTS (UNAUDITED)**  
December 31, 2008

An independent reserve analyst performed the Association's reserve study in November 2006 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 replacement costs and asset lives have not been revised since that date but the study does take into account the effects of inflation, at a 1.31% rate, between the date of the study and the date 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. (Amounts are rounded to the nearest hundred dollars.)

Cash designated for repairs and replacement at December 31, 2008 was \$41,261. See Notes 1 and 2.

	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost
Alarm system - clubhouse	11	\$ 1,400
Wooden deck, rail, steps - clubhouse	10	2,200
Exercise equipment - clubhouse	10	24,600
Entry access system	15	5,500
Rubber flooring - clubhouse	15	7,500
Flooring - clubhouse	10	14,100
Furnace - clubhouse	9	4,500
Furniture and appliances - clubhouse	10	17,000
Hot water heater - clubhouse	6	800
Lights - clubhouse	15	6,600
Office equipment - clubhouse	5	2,400
Exterior paint - clubhouse	2	7,500
Interior paint - clubhouse	2	5,500
Recreational equipment - clubhouse	5	2,500
Composition roof - clubhouse	25	5,800
Flat roof - clubhouse	10	1,500
Gutters and downspouts - clubhouse	25	1,000
Sauna heater - clubhouse	10	500
Security camera equipment - clubhouse	11	13,300
Siding and trim - clubhouse	2	500
Sound system	5	1,000
Sump pumps	10	1,000
Concrete	5	1,000
Brick and mortar - entry	2	2,000
Chainlink and slats fence - clubhouse	30	5,400
Vinyl fence - entry - clean and repair	3	500
Vinyl fence - entry - replace	25	17,200
Landscape renovation	5	2,500
Play structure, swing, and furniture - park	14	31,000
Asphalt paving - overlay	25	17,500
Asphalt paving - sealcoat	1	2,800
Dehumidifying equipment - pool room	1	20,000
Chemical controller - pool	5	4,000
Chlorinator, filter, heater, and pump - pool	10	4,400
Tile - pool	5	5,900
Cover - spa	5	600
Filter - spa	15	800
Handicap lift, heater, and pumps - spa	10	4,900
Tile - spa	10	3,800
Treework	5	<u>1,000</u>
Total		<u>\$252,000</u>

See accountants' report.