

GLENGARRY CONDOMINIUM
OWNERS ASSOCIATION

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance Sheet.....	3
Statement of Revenues and Expenses	4
Statement of Changes in Fund Balances	5
Statement of Cash Flows	6
Notes to Financial Statements	7-9
SUPPLEMENTARY INFORMATION	
Supplementary Information on Future Major Repairs and Replacements	10

Andrew R. McAlister, P.S.

Certified Public Accountant

Independent Auditor's Report

Board of Directors of Glengarry Condominium Owners Association

Report on Financial Statements

I have audited the accompanying financial statements of Glengarry Condominium Owners Association, which comprise the balance sheet as of December 31, 2016, the related statements of revenues and expenses, and changes in fund balance and cash flows for the year then ended, and 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Glengarry Condominium Owners Association as of December 31, 2016, 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.

Disclaimer of Opinion of Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Andrew R McAllister, ps

Seattle, Washington
November 21, 2017

GLENGARRY CONDOMINIUM OWNERS ASSOCIATION

BALANCE SHEET

December 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 99,656	\$ -	\$ 99,656
Assessments receivable	13,605		13,605
Allowance for bad debt	(6,200)		(6,200)
Prepaid expenses	<u>194</u>		<u>194</u>
	<u>\$ 107,255</u>	<u>\$ -</u>	<u>\$ 107,255</u>
Liabilities and Fund balances:			
Accounts payable	\$ 200	\$ -	\$ 200
Income taxes payable	<u>179</u>		<u>179</u>
Total liabilities	379	-	379
Fund balances	<u>106,876</u>	<u>-</u>	<u>106,876</u>
	<u>\$ 107,255</u>	<u>\$ -</u>	<u>\$ 107,255</u>

See accompanying notes to financial statements.

GLENGARRY CONDOMINIUM OWNERS ASSOCIATION

STATEMENT OF REVENUES AND EXPENSES

For the Year Ended December 31, 2016

	Operating Fund	Replacement Fund	Total
Revenues:			
Regular assessments	\$ 62,745	\$ -	\$ 62,745
Application fees	2,200		2,200
Late fees	1,335		1,335
Comcast profit sharing	866		866
Reimbursed landscape	238		238
	67,384	-	67,384
Expenses:			
Irrigation water	2,482		2,482
Electricity	571		571
Landscaping maintenance	31,733		31,733
Landscape bark	7,863		7,863
Lawn treatment	2,427		2,427
Irrigation repairs	1,319		1,319
Retention pond maintenance	3,251		3,251
Fence repairs	108		108
Insurance	2,325		2,325
Professional fees	3,660		3,660
Office	857		857
Bad debt	1,293		1,293
Income taxes	179		179
	58,068	-	58,068
Excess (deficit) of revenue over expenses	\$ 9,316	\$ -	\$ 9,316

See accompanying notes to financial statements.

GLENGARRY CONDOMINIUM OWNERS ASSOCIATION
 STATEMENT OF CHANGES IN FUND BALANCES
 For the Year Ended December 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Beginning balance	\$ 97,560	\$ -	\$ 97,560
Excess (deficit) of revenue over expenses	<u>9,316</u>	<u>-</u>	<u>9,316</u>
Ending balance	<u><u>\$ 106,876</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 106,876</u></u>

GLENGARRY CONDOMINIUM OWNERS ASSOCIATION

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash Flows From Operating Activities:			
Excess (deficit) of revenues over expenses	<u>\$ 9,316</u>	<u>\$ -</u>	<u>\$ 9,316</u>
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided by operating activities			
(Increase) decrease in:			
Assessments receivable	(6)		(6)
Allowance for bad debt	697		697
Prepaid expense	(1)		(1)
Increase (decrease) in:			
Accounts payable	(1)		(1)
Income taxes	179		179
Prepaid assessments	(67)		(67)
Total adjustments	<u>801</u>	<u>-</u>	<u>801</u>
Net Cash Provided (Used) By Operations	<u>10,117</u>	<u>-</u>	<u>10,117</u>
Net Increase (Decrease) In Cash	10,117	-	10,117
Cash At Beginning Of Period	<u>89,539</u>	<u>-</u>	<u>89,539</u>
Cash At End Of Period	<u><u>\$ 99,656</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 99,656</u></u>
Supplemental Disclosures:			
Income taxes paid	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Interest paid	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

GLENGARRY CONDOMINIUM OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

1. PURPOSE AND ORGANIZATION

Glengarry Condominium Owners Association is incorporated as a nonprofit organization in the state of Washington. The Association is responsible for the operation and maintenance of the common property located in Snohomish County, Washington. The Association membership consists of 141 residential unit owners.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

The Association considers all highly liquid investments with a maturity of 3 months or less to be cash equivalents.

Assessments Receivable

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. It is the opinion of the board of directors that the Association may not collect all past due assessments. Accordingly, an allowance for doubtful accounts has been established.

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 unit owners in common and not by the Association. The Association capitalizes personal property at cost and depreciates it using the straight-line method.

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.

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

GLENGARRY CONDOMINIUM OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Member Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Any excess assessments at year end are retained by the Association for use in future years.

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 at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

3. DATE OF MANAGEMENT'S 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 available to be issued.

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 accounts and are generally not available for operating purposes.

Association Reserves conducted a Full Reserve Study in December, 2016 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is not funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of future replacement costs, considering amounts previously accumulated in the replacement fund.

Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs. If additional funds are needed, 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.

GLENGARRY CONDOMINIUM OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

5. FEDERAL INCOME TAX PROVISION

Associations may be taxed either as homeowners' associations or as regular corporations. The Association elected to file form 1120-H and be taxed as a homeowners' association under Internal Revenue Code Section 528 in the current year. 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 earned interest and revenues received from nonmembers less allocated expenses, is taxed at 30%. The federal income tax returns are subject to examination by the Internal Revenue Service for three years after the date filed.

6. COMMITMENTS

The Association has a contract for landscaping services.

SUPPLEMENTARY INFORMATION

GLENGARRY CONDOMINIUM OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

Association Reserves conducted an updated study in December, 2016 to estimate the remaining useful lives and the replacements costs of the common property components. Replacement costs were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 3 percent, interest of 1 percent, net of taxes, on amounts funded for future major repairs and replacements.

According to the study, the reserves are 74% funded based on a full funding plan and a cash balance of \$100,000 which is the total balance in the operating account. For 2017, the study's funding recommendation is \$14,000. The Association's 2017 budget does not include funding for reserves.

Selected information from that study on the following pages presents significant information about the components of common property.

Washington Office
505 South 336th St., Ste 620
Federal Way, WA 98003

TEL 253/661-5437
FAX 253/661-5430
arwa@reservestudy.com
www.reservestudy.com

**ASSOCIATION
RESERVES**

Est. 1986

Reserve Studies for Community Associations

Corporate Office
Calabasas, CA

Regional Offices
Phoenix, AZ
San Francisco, CA
Denver, CO
Honolulu, HI
Las Vegas, NV
Miami, FL

“Full” Reserve Study



Glengarry Condominium OA Bothell, WA

Report #: 28236-0

For Period Beginning: January 1, 2017

Expires: December 31, 2017

Date Prepared: December 6, 2016

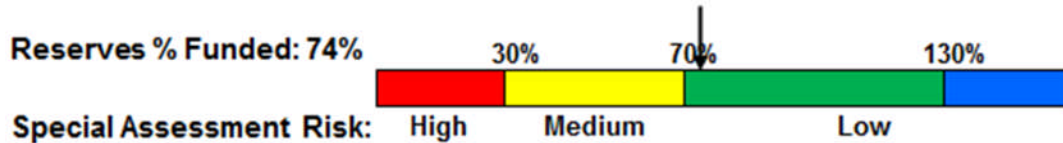
3- Minute Executive Summary

Association: Glengarry Condominium OA **#:** 28236-0
Location: Bothell, WA **# of Units:** 141
Report Period: January 1, 2017 through December 31, 2017

Findings/Recommendations as-of 1/1/2017:

Projected Starting Reserve Balance:	\$100,000*
Current Fully Funded Reserve Balance:	\$134,568
Average Reserve Deficit (Surplus) Per Unit:.....	\$245
100%2017 Annual “Full Funding” Contributions:	\$14,000
Baseline contributions (min to keep Reserves above \$0):.....	\$13,350
Recommended 2017 Special Assessment for Reserves:.....	\$0

Most Recent Budgeted Reserve Contribution Rate:..... \$4,400



Economic Assumptions:

Net Annual “After Tax” Interest Earnings Accruing to Reserves..... 1.00%
Annual Inflation Rate..... 3.00%

- This is a “Full” Reserve Study, based on our site inspection on November 18, 2016 and meets or exceeds all requirements of the RCW. This study was prepared by a credentialed Reserve Specialist (RS™).
- Your Reserve Fund is currently 74% Funded. This means the association’s special assessment & deferred maintenance risk is currently low. The objective of your multi-year Funding Plan is to fund your Reserves to a level where you will enjoy a low risk of such Reserve cash flow problems. *Although the Association does not currently have a separate, dedicated reserve account, the starting balance here is the amount in the operating account they consider to be reserve funds.
- Based on this starting point and your anticipated future expenses, our recommendation is to increase your Reserve contributions to the 100% level as noted above. The 100% “Full” contribution rate is designed to achieve this funding objective *by the end of* our 30-year report scope. No assets appropriate for Reserve designation were excluded. See photo appendix for component details and the basis of our assumptions.

#	Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Cost Estimate
100	Concrete - Repair/Replace	5	3	\$4,000
120	Private Roads - Repave	30	17	\$176,000
121	Private Roads - Repair	5	0	\$4,000
140	Transmission Line Fence - Replace	20	18	\$4,750
141	Pond Fencing - Repair/Replace	30	17	\$29,400
172	Street Trees - Prune/Replace	10	0	\$10,500
182	Detention Ponds - Maintain	3	2	\$3,250
185	Private Catchbasins - Inspect/Clean	5	1	\$2,850
200	Entry Monument - Replace	25	12	\$2,000
205	Mailboxes - Replace	20	7	\$15,000
322	Trail/Court, Asphalt - Repairs	5	1	\$5,000
340	Play Equipment - Replace	18	5	\$15,000
12	Total Funded Components			

Note 1: a Useful Life of "N/A" means a one-time expense, not expected to repeat.

Note 2: Yellow highlighted line items are expected to require attention in the initial year, green highlighted items are expected to occur within the first five years.