

Renaissance Ridge Homeowners Association

Financial Statements and  
Supplementary Information

For the Year Ended December 31, 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members  
Renaissance Ridge Homeowners Association  
Sammamish, Washington

We have audited the accompanying balance sheet of Renaissance Ridge Homeowners Association as of December 31, 2009, and the related statements of revenues, expenses, and changes in fund balances, and cash flows for the year then ended. These financial statements are the responsibility of the 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Renaissance Ridge Homeowners Association as of December 31, 2009, 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.

The supplementary information on future major repairs and replacements is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

*Stanford, Munko & Co., PLLC*  
Certified Public Accountants

August 5, 2010

Renaissance Ridge Homeowners Association

Balance Sheet  
December 31, 2009

| <u>Assets</u>   | <u>Operating<br/>Fund</u> | <u>Replacement<br/>Fund</u> | <u>Total</u>      |
|---|---------------------------|-----------------------------|-------------------|
| Cash  | \$ 56,740                 | \$ 93,192                   | \$ 149,932        |
| Assessments receivable-net of allowance<br>for doubtful accounts of \$4,366 | 1,526                     |                             | 1,526             |
| Other receivables   | 1,935                     |                             | 1,935             |
| Prepaid federal income tax  | <u>34</u>                 |                             | <u>34</u>         |
| Total assets  | <u>\$ 60,235</u>          | <u>\$ 93,192</u>            | <u>\$ 153,427</u> |
| <br><u>Liabilities and Fund Balances</u>                                    |                           |                             |                   |
| Accounts payable  | \$ 928                    | \$                          | \$ 928            |
| Prepaid assessments   | <u>30,114</u>             |                             | <u>30,114</u>     |
| Total liabilities   | \$ 31,042                 | \$                          | \$ 31,042         |
| Fund balances   | <u>29,193</u>             | <u>93,192</u>               | <u>122,385</u>    |
| Total liabilities and fund balances   | <u>\$ 60,235</u>          | <u>\$ 93,192</u>            | <u>\$ 153,427</u> |

See accompanying notes to financial statements.

Renaissance Ridge Homeowners Association

Statement of Revenues, Expenses  
and Changes in Fund Balances  
For the Year Ended December 31, 2009

|                                    | <u>Operating<br/>Fund</u> | <u>Replacement<br/>Fund</u> | <u>Total</u>      |
|------------------------------------|---------------------------|-----------------------------|-------------------|
| <b>Revenues:</b>                   |                           |                             |                   |
| Regular assessments                | \$ 109,815                | \$ 9,985                    | \$ 119,800        |
| Late and other member charges      | 732                       |                             | 732               |
| Recovered damages                  | 1,409                     |                             | 1,409             |
| Interest                           |                           | 66                          | 66                |
|                                    | <hr/>                     | <hr/>                       | <hr/>             |
| Total revenue                      | \$ 111,956                | \$ 10,051                   | \$ 122,007        |
| <b>Expenses:</b>                   |                           |                             |                   |
| <b>Utilities:</b>                  |                           |                             |                   |
| Electricity                        | \$ 9,838                  | \$                          | \$ 9,838          |
| Water / sewer                      | 12,947                    |                             | 12,947            |
| Telephone / alarm                  | 189                       |                             | 189               |
|                                    | <hr/>                     | <hr/>                       | <hr/>             |
|                                    | \$ 22,974                 | \$                          | \$ 22,974         |
| <b>Maintenance:</b>                |                           |                             |                   |
| General repairs and maintenance    | \$ 3,440                  | \$                          | \$ 3,440          |
| Landscape maintenance              | 49,188                    |                             | 49,188            |
|                                    | <hr/>                     | <hr/>                       | <hr/>             |
|                                    | \$ 52,628                 | \$                          | \$ 52,628         |
| <b>General and administrative:</b> |                           |                             |                   |
| Management fees                    | \$ 7,200                  | \$                          | \$ 7,200          |
| Insurance                          | 5,492                     |                             | 5,492             |
| Insurance claim                    | 1,408                     |                             | 1,408             |
| Functions                          | 728                       |                             | 728               |
| Professional services              | 1,650                     |                             | 1,650             |
| Office and miscellaneous           | 781                       | 100                         | 881               |
| Bad debt                           | 4,366                     |                             | 4,366             |
|                                    | <hr/>                     | <hr/>                       | <hr/>             |
|                                    | \$ 21,625                 | \$ 100                      | \$ 21,725         |
| Total operating expenses           | <u>\$ 97,227</u>          | <u>\$ 100</u>               | <u>\$ 97,327</u>  |
| Excess of revenues over expenses   | \$ 14,729                 | \$ 9,951                    | \$ 24,680         |
| Fund balances at beginning of year | <u>14,464</u>             | <u>83,241</u>               | <u>97,705</u>     |
| Fund balances at end of year       | <u>\$ 29,193</u>          | <u>\$ 93,192</u>            | <u>\$ 122,385</u> |

See accompanying notes to financial statements.

Renaissance Ridge Homeowners Association

Statement of Cash Flows  
For the Year Ended December 31, 2009

|   | <u>Operating<br/>Fund</u> | <u>Replacement<br/>Fund</u> | <u>Total</u>      |
|---|---------------------------|-----------------------------|-------------------|
| Cash flows from operating activities:   |                           |                             |                   |
| Excess of revenues over expenses:   | \$ 14,729                 | \$ 9,951                    | \$ 24,680         |
| Adjustments to reconcile excess of<br>revenues over expenses to net cash<br>provided by operating activities: |                           |                             |                   |
| (Increase) decrease in assets:  |                           |                             |                   |
| Assessments receivable-net of allowance<br>for doubtful accounts of \$4,366                                   | 2,281                     |                             | 2,281             |
| Other receivables   | (46)                      |                             | (46)              |
| Prepaid insurance   | 5,492                     |                             | 5,492             |
| Prepaid federal income tax  | (34)                      |                             | (34)              |
| Increase (decrease) in liabilities:   |                           |                             |                   |
| Accounts payable  | 75                        |                             | 75                |
| Prepaid assessments   | 30,051                    |                             | 30,051            |
| Federal income tax payable  | <u>(131)</u>              |                             | <u>(131)</u>      |
| Net cash provided (used) by<br>operating activities   | \$ 52,417                 | \$ 9,951                    | \$ 62,368         |
| Cash at beginning of year   | <u>4,323</u>              | <u>83,241</u>               | <u>87,564</u>     |
| Cash at end of year   | <u>\$ 56,740</u>          | <u>\$ 93,192</u>            | <u>\$ 149,932</u> |
| Supplemental disclosure:  |                           |                             |                   |
| Income taxes paid   | <u>\$ 0</u>               | <u>\$ 0</u>                 | <u>\$ 0</u>       |

See accompanying notes to financial statements.

Renaissance Ridge Homeowners Association

Notes to Financial Statements  
December 31, 2009

Note 1 - Nature of Organization:

Renaissance Ridge Homeowners Association is a statutory homeowner association incorporated in the State of Washington November 12, 1998. The Association is responsible for the operation and maintenance of the common property of Renaissance Ridge, which consists of 300 residential units located in Sammamish, Washington. The Association is subject to certain provisions of the Washington Condominium Act, RCW Chapter 64.38.

Note 2 - Date of Management's Review:

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 5, 2010 the date the financial statements were available to be issued.

Note 3 - Summary of Significant Accounting Policies:

Fund Accounting:

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

Cash and Cash Equivalents:

The Association considers money market accounts and cash investments with an original maturity date of 90 days or less to be cash equivalents. The Association maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts.

Assessments receivable:

Assessments receivable at the balance sheet date represent fees due from unit owners. The Association has the authority to assess late charges and, if necessary, place liens on properties of homeowners whose assessments are delinquent. At December 31, 2009, there were fourteen accounts in the amount of \$7,643, which were over 90 days delinquent. Bad debt expense for 2009 of \$4,366 was included in general and administrative expenses.

Renaissance Ridge Homeowners Association

Notes to Financial Statements (Continued)  
December 31, 2009

Note 3 - Summary of Significant Accounting Policies (Continued):

Property and Equipment:

Real property and common areas acquired from the developer and related improvements to such property are not recorded on the Association's financial statements. Those properties are owned by the individual unit owners in common and not by the Association. Expenditures for improvements to such property are charged to expense in the period incurred. Personal property acquired by the Association is recorded at cost and depreciated over its estimated useful life using the straight line method of depreciation. There is no capitalized property at the end of the year.

Federal Income Taxes:

The Association may elect to be taxed as a regular corporation or as a homeowners association. For the year ended December 31, 2009 the Association elected to be taxed as a homeowners association under Internal Revenue Code Section 528. Under that section, the Association is taxed at 30% on its net nonexempt function income, which includes interest earnings. Exempt function income, such as membership assessments, is not taxable.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Note 4 - Future Major Repairs and Replacements:

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregated approximately \$93,192 at December 31, 2009, are held in separate accounts and are generally not available for operating purposes.

The Association commissioned a study by professional reserve analysts in 2004 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimate of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures however may vary from the estimated costs and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, to levy special assessments, or it may delay major repairs and replacements until funds are available.

Note 5 - Assessments:

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Total half yearly member assessments to owners were \$60,000. Of this amount, \$5,000 was designated to the replacement fund.

Renaissance Ridge Homeowners Association

Notes to Financial Statements (Continued)

December 31, 2009

Note 5 - Assessments (Continued):

The annual budget and member assessments are determined by the board of directors, within certain restrictions. The Association retains excess operating funds at the end of the year, if any, for use in future operating periods.

Note 6 - Insurance Reserve:

At December 31, 2009, the Association did not maintain a separate insurance reserve. The Association makes payments on an annual insurance contract

Note 7 - Management Company Transactions:

The management company is reimbursed for various administrative costs incurred on behalf of the Association.

Note 8 - Commitments:

The Association has various contracts for services including but not limited to management, landscape and various maintenance services.

Supplementary Information

Renaissance Ridge Homeowners Association

Supplementary Information on Future  
Major Repairs and Replacements  
December 31, 2009

The Association commissioned a study in 2004 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 and have not been revised since that date. The study takes into account the effects of a five percent inflation rate and interest rate of four percent, net of tax, 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. The information presented is only an excerpt from the complete study.

See independent auditors' report.

DATE: 30-Sep-04

PER YEAR EXPENSES (adjusted for inflation\*)

| #                           | Component name       | Typical life | Next exp. | 2004     | 2005      | 2006     | 2007      | 2008       | 2009      | 2010        | 2011       | 2012        |
|-----------------------------|----------------------|--------------|-----------|----------|-----------|----------|-----------|------------|-----------|-------------|------------|-------------|
| 2.6.1                       | Streets and Roads    | 15           | -         |          |           |          |           |            |           |             |            |             |
| 2.6.2                       | Asphalt Paving       | 15           | 1         |          | \$1,049   |          |           |            |           |             | \$1,406    |             |
| 2.6.3                       | Gravel Pathways      | 5            | 1         |          | \$5,182   |          |           |            |           | \$6,613     |            |             |
| 2.7.1                       | Fencing              | 10           | 4         |          |           | \$288    |           | \$58,438   |           | \$128,857   |            | \$71,032    |
| 2.8.1                       | Site Fixtures        | 15           | 2         |          |           |          |           |            |           | \$8,916     |            |             |
| 2.9.1                       | Lawns/Landscape      | Indef.       | -         |          |           |          |           |            |           |             |            |             |
| 3.2.1                       | Retaining Walls      | 30           | -         |          |           |          |           |            |           |             |            |             |
| 10.4.4                      | Entry Features       | Varies       | 6         |          |           |          |           |            |           | \$8,500     |            | \$17,360    |
| 10.5.1                      | Mailboxes            | 10           | 6         |          |           |          |           |            |           | \$11,084    | \$11,638   | \$12,220    |
| 15.2.1                      | Lawn Irrigation      | Varies       | -         |          |           |          |           |            |           |             |            |             |
| 15.4.1                      | Stormwater Detention | Indef.       | -         |          |           |          |           |            |           |             |            |             |
| 16.6.1                      | Exterior Lighting    | 15           | -         |          |           |          |           |            |           |             |            |             |
| Total Expenditures by Year  |                      |              |           | \$0      | \$6,231   | \$288    | \$0       | \$58,438   | \$0       | \$163,970   | \$13,044   | \$100,612   |
| Carry over reserve balance  |                      |              |           | \$23,252 | \$24,182  | \$50,924 | \$86,403  | \$125,283  | \$107,882 | \$151,251   | \$31,059   | \$62,053    |
| Annual Reserve Contribution |                      |              |           |          | \$31,500  | \$33,075 | \$34,729  | \$36,465   | \$38,288  | \$40,203    | \$42,213   | \$44,324    |
| Reserve Expenditures        |                      |              |           | \$0      | (\$6,231) | (\$288)  | \$0       | (\$58,438) | \$0       | (\$163,970) | (\$13,044) | (\$100,612) |
| Accumulated Reserve Funds   |                      |              |           | \$23,252 | \$49,451  | \$83,711 | \$121,132 | \$103,310  | \$146,170 | \$27,484    | \$60,228   | \$5,765     |
| Interest Earned             |                      |              |           | \$930    | \$1,473   | \$2,693  | \$4,151   | \$4,572    | \$5,081   | \$3,575     | \$1,826    | \$1,356     |
| Year End Reserve Balance    |                      |              |           | \$24,182 | \$50,924  | \$86,403 | \$125,283 | \$107,882  | \$151,251 | \$31,059    | \$62,053   | \$7,122     |
| Inflation multiplier        |                      |              |           | 1.00     | 1.05      | 1.10     | 1.16      | 1.22       | 1.28      | 1.34        | 1.41       | 1.48        |
| Interest rate multiplier    |                      |              |           | 0.04     |           |          |           |            |           |             |            |             |

See independent auditors' report.

**20 YEAR SPREAD SHEET ALLOWING FOR INFLATION**

DATE: 30-Sep-04

PER YEAR EXPENSES (adjusted for inflation\*)

| #                                 | COMPONENT NAME       | TYPICAL NEXT LIFE EXP. | 0        | 1        | 2        | 3         | 4         | 5         | 6         | 7         | 8         |
|-----------------------------------|----------------------|------------------------|----------|----------|----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                                   |                      |                        | 2004     | 2005     | 2006     | 2007      | 2008      | 2009      | 2010      | 2011      | 2012      |
| 2.8.1                             | STREETS AND ROADS    | 15                     |          |          |          |           |           |           |           |           |           |
| 2.8.2                             | ASPHALT PAVING       | 15                     |          | \$1,049  |          |           |           |           |           | \$1,408   |           |
| 2.8.3                             | GRAVEL PATHWAYS      | 5                      |          | \$5,182  |          |           |           |           | \$6,813   |           |           |
| 2.7.1                             | FENCING              | 10                     |          |          |          | \$58,438  |           |           | \$128,857 |           | \$71,032  |
| 2.8.1                             | SITE FIXTURES        | 15                     |          |          | \$288    |           |           |           | \$8,816   |           |           |
| 2.8.1                             | LAWNS/ LANDSCAPE     | INDEF.                 |          |          |          |           |           |           |           |           |           |
| 3.2.1                             | RETAINING WALLS      | 30                     |          |          |          |           |           |           |           |           |           |
| 10.4.1                            | ENTRY FEATURES       | VARIES                 |          |          |          |           |           |           |           |           | \$17,360  |
| 10.5.1                            | MAILBOXES            | 10                     |          |          |          |           |           |           | \$11,064  | \$11,638  | \$12,220  |
| 15.2.1                            | LAWN IRRIGATION      | VARIES                 |          |          |          |           |           |           |           |           |           |
| 15.4.1                            | STORMWATER DETENTION | INDEF.                 |          |          |          |           |           |           |           |           |           |
| 18.6.1                            | EXTERIOR LIGHTING    | 15                     |          |          |          |           |           |           |           |           |           |
| <b>TOTAL EXPENDITURES BY YEAR</b> |                      |                        |          | \$6,231  | \$288    | \$58,438  | \$163,970 | \$13,044  | \$100,612 |           |           |
| CARRY OVER RESERVE BALANCE        |                      |                        | \$23,252 | \$24,182 | \$50,824 | \$86,404  | \$125,283 | \$107,883 | \$151,252 | \$31,060  | \$62,055  |
| ANNUAL RESERVE CONTRIBUTION       |                      |                        | \$31,500 | \$33,075 | \$34,729 | \$36,485  | \$38,288  | \$40,203  | \$42,213  | \$44,324  | \$46,434  |
| RESERVE EXPENDITURES              |                      |                        | \$6,231  | \$288    | \$58,438 | \$163,970 | \$13,044  | \$100,612 |           |           |           |
| ACCUMULATED RESERVE FUNDS         |                      |                        | \$23,252 | \$48,451 | \$83,711 | \$121,133 | \$163,970 | \$207,485 | \$251,741 | \$296,055 | \$340,324 |
| INTEREST EARNED                   |                      |                        | \$930    | \$1,473  | \$2,663  | \$4,151   | \$5,722   | \$7,375   | \$9,111   | \$10,928  | \$12,856  |
| YEAR END RESERVE BALANCE          |                      |                        | \$24,182 | \$50,924 | \$86,404 | \$125,283 | \$167,883 | \$211,252 | \$256,366 | \$301,290 | \$346,146 |
| INFLATION MULTIPLIER              |                      |                        | 1.00     | 1.05     | 1.10     | 1.16      | 1.22      | 1.28      | 1.34      | 1.41      | 1.48      |
| INTEREST RATE MULTIPLIER          |                      |                        |          |          |          |           |           |           |           |           |           |

See independent auditors' report.