

Richmond Manor Condominiums
Owners Association

Financial Statements and
Supplementary Information

For the Year Ended December 31, 2016

STANFORD, MUNKO & Co., P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS
4250 8TH AVE NW, SUITE 200
SEATTLE, WASHINGTON 98107-4513
TELEPHONE (206) 283-1627
FAX (206) 283-9761
www.stanfordmunko.com

DAVID A. MUNKO, C.P.A.
FRED L. LINTOW, C.P.A.
JAMES H. POWERS, C.P.A.
BRIAN J. BOTNEN, C.P.A.
CHRIS J. SULLIVAN, C.P.A.
ANTHONY MUNKO, C.P.A.
SUSAN J. PAWLICKI, C.P.A.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Richmond Manor Condominiums Owners Association
Shoreline, Washington

We have audited the accompanying financial statements of Richmond Manor Condominiums Owners Association, which comprise the balance sheet as of December 31, 2016, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

Association's Responsibility for the Financial Statements

The Association 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

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.

INDEPENDENT AUDITORS' REPORT (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Richmond Manor Condominiums 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 on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements, which is presented as unaudited supplementary information behind the Notes to Financial Statements, 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.

Stanford, Munster & Co., PLLC

Certified Public Accountants

August 2, 2017

Richmond Manor Condominiums
Owners Association

Balance Sheet
December 31, 2016

<u>Assets</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash	\$ 35,586	\$ 56,369	\$ 91,955
Certificates of deposit		180,717	180,717
Assessments receivable	727		727
Prepaid expenses	<u>4,529</u>		<u>4,529</u>
Total assets	<u>\$ 40,842</u>	<u>\$ 237,086</u>	<u>\$ 277,928</u>
 <u>Liabilities and Fund Balances</u>			
Accounts payable	\$ 3,404	\$	\$ 3,404
Assessments received in advance	2,805		2,805
Federal income tax payable	<u>308</u>		<u>308</u>
Total liabilities	\$ 6,517	\$	\$ 6,517
Fund balances	<u>34,325</u>	<u>237,086</u>	<u>271,411</u>
Total liabilities and fund balances	<u>\$ 40,842</u>	<u>\$ 237,086</u>	<u>\$ 277,928</u>

See accompanying notes to financial statements.

Richmond Manor Condominiums
Owners Association

Statement of Revenues, Expenses
and Changes in Fund Balances
For the Year Ended December 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues:			
Member assessments	\$ 97,035	\$ 32,145	\$ 129,180
Late and other member charges	434		434
Interest	75	1,054	1,129
	<hr/>	<hr/>	<hr/>
Total revenues	\$ 97,544	\$ 33,199	\$ 130,743
Expenses:			
Utilities:			
Electricity	\$ 3,332	\$	\$ 3,332
Water	8,861		8,861
Sewer	13,347		13,347
Garbage removal	4,377		4,377
Telephone	2,532		2,532
	<hr/>	<hr/>	<hr/>
	\$ 32,449	\$	\$ 32,449
Maintenance:			
General repairs and maintenance	\$ 9,451	\$	\$ 9,451
Landscape maintenance	8,124		8,124
Janitorial	3,000		3,000
Elevator	4,576		4,576
Fire and security	5,507		5,507
	<hr/>	<hr/>	<hr/>
	\$ 30,658	\$	\$ 30,658
General and administrative:			
Management fees	\$ 12,000	\$	\$ 12,000
Insurance	25,268		25,268
Professional services	300		300
Office and miscellaneous	1,261		1,261
Federal income tax	308		308
	<hr/>	<hr/>	<hr/>
	\$ 39,137	\$	\$ 39,137
	<hr/>	<hr/>	<hr/>
Total operating expenses	\$ 102,244	\$	\$ 102,244
Excess (deficiency) of revenues over expenses	\$ (4,700)	\$ 33,199	\$ 28,499
Fund balances at beginning of year	<hr/>	<hr/>	<hr/>
	39,025	203,887	242,912
Fund balances at end of year	<hr/>	<hr/>	<hr/>
	\$ 34,325	\$ 237,086	\$ 271,411

See accompanying notes to financial statements.

Richmond Manor Condominiums
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 (deficiency) of revenues over expenses:	\$ (4,700)	\$ 33,199	\$ 28,499
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in assets:			
Assessments receivable	(727)		(727)
Prepaid expenses	(4,529)		(4,529)
Increase (decrease) in liabilities:			
Accounts payable	785		785
Assessments received in advance	1,826		1,826
Federal income tax payable	(38)		(38)
	<u> </u>	<u> </u>	<u> </u>
Net cash provided (used) by operating activities	\$ (7,383)	\$ 33,199	\$ 25,816
Cash flows from investing activities:			
Certificates of deposit - net	\$ <u> </u>	\$ <u>(180,717)</u>	\$ <u>(180,717)</u>
Net cash provided (used) by investing activities	\$ <u> </u>	\$ <u>(180,717)</u>	\$ <u>(180,717)</u>
Net increase (decrease) in cash	\$ (7,383)	\$ (147,518)	\$ (154,901)
Cash at beginning of year	<u>42,969</u>	<u>203,887</u>	<u>246,856</u>
Cash at end of year	<u><u>35,586</u></u>	<u><u>56,369</u></u>	<u><u>91,955</u></u>
Supplemental disclosure:			
Cash paid for income tax	\$ <u>346</u>	\$ <u>0</u>	\$ <u>346</u>
Cash paid for interest	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>

See accompanying notes to financial statements.

Richmond Manor Condominiums
Owners Association

Notes to Financial Statements
Year Ended December 31, 2016

Note 1 - Nature of Organization:

Richmond Manor Condominiums Owners Association is a statutory condominium association incorporated in the State of Washington on February 4, 2003. The Association is responsible for the operation and maintenance of the common property of Richmond Manor Condominiums, which consists of 27 residential units located in Shoreline, Washington. The Association is subject to the provisions of the Washington Condominium Act, RCW 64.34.

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 the date of the audit report, which is the date the financial statements were 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. This fund includes a savings account used to accumulate financial resources designated for insurance expenditures.

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.

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

Richmond Manor Condominiums
Owners Association

Notes to Financial Statements (Continued)
Year Ended December 31, 2016

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 recognized as assets on the Association's financial statements. Those properties are owned by the individual members in common and not by the Association. Expenditures for improvements to such property are charged to expense in the period incurred. The Association capitalizes real property not directly associated with the units to which it has title or other evidence of ownership. There is no capitalized property at the end of the year.

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 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 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 are held in separate accounts and are generally not available for operating purposes.

The Association commissioned a study by professional reserve analysts in 2017 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 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 certain limitations, to increase regular assessments, to levy special assessments, or it may delay major repairs and replacements until the funds are available. In 2016, the Association budgeted and funded \$32,145.

Note 5 - Assessments Receivable and Allowance for Doubtful Accounts:

Assessments receivable at the balance sheet date represent amounts due from members and are reported net of any allowance for doubtful accounts. It is the opinion of the board of directors that the Association will ultimately prevail against members with delinquent amounts and, accordingly, no allowance for uncollectible accounts is deemed necessary. The Association has the authority to assess late charges and, if necessary, place liens on properties of members whose assessments are delinquent.

Richmond Manor Condominiums
Owners Association

Notes to Financial Statements (Continued)
Year Ended December 31, 2016

Note 6 - Federal Income Taxes:

The Association is taxed as a regular corporation or it may elect to be taxed as a homeowners association under Internal Revenue Code Section 528. For the year ended December 31, 2016, the Association elected to be taxed as a homeowners association. Under that election, the Association is taxed only on its nonexempt function income, such as interest income, at homeowner association tax rates. Exempt function income, such as member assessments, is not taxable. The Association's tax returns are generally subject to examination by taxing authorities for three years after the returns are filed. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

Note 7 - Insurance Reserve:

The Association by-laws require that one-twelfth of the annual cost of insurance be set aside monthly in a savings account designated as an insurance reserve. Monthly contributions to this account take priority over all other disbursements from assessment revenue. At December 31, 2016, the amount on deposit in the insurance reserve account was \$15,476.

Note 8 - Commitments:

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

The Association is required to pay a sewage treatment capacity charge to King County as authorized by The Revised Code of Washington, Chapter 35.58.570 and King County Code 28.84.050. The charge is considered to be an additional utility expense and is billed for fifteen years. The Association currently pays \$3,567 per year and has a remaining balance due of approximately \$3,567 at December 31, 2016.

Note 9 - Risks and Uncertainties:

The Association's assessments receivable represents payments due from delinquent members, some of whom may be seriously delinquent. The Association anticipates collecting these balances through its collection efforts, including filing liens and legal actions against these members. The collection of these amounts will be affected by the foreclosure of liens superior to the lien by the Association such as mortgage lien holders, delinquent property tax liens, bankruptcies by the members, etc.

Note 10 - Management Company Transactions:

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

Supplementary Information

Richmond Manor Condominiums
Owners Association

Supplementary Information on Future
Major Repairs and Replacements - Unaudited
December 31, 2016

The Association commissioned a study by professional reserve analysts in 2017 to estimate the remaining useful lives and the replacement costs of the components of common property. Current replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Future replacement costs were based on the estimated costs to repair or replace the common property components at the end of their useful lives assuming an annual inflation rate of three percent. The study also includes an interest rate of one percent, net of taxes, on amounts funded.

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.

3- Minute Executive Summary

Association: Richmond Manor COA Assoc. #: 17195-2
 Location: Shoreline, WA # of Units:27
 Report Period: January 1, 2018 through December 31, 2018

Findings/Recommendations as-of: January 1, 2018

Starting Reserve Balance	\$272,060
Current Fully Funded Reserve Balance	\$362,600
Percent Funded	75.0 %
Average Reserve Deficit or (Surplus) Per Unit	\$3,353
Recommended 2018 100% Monthly "Full Funding" Contributions	\$3,475
2018 70% Monthly "Threshold Funding" Contributions	\$3,175
2018 "Baseline Funding" minimum contributions to keep Reserves above \$0	\$2,775
Most Recent Budgeted Contribution Rate	\$2,947

Reserves % Funded: 75.0%



Special Assessment Risk:

Economic Assumptions:

Net Annual "After Tax" Interest Earnings Accruing to Reserves	1.00 %
Annual Inflation Rate	3.00 %

- This is a Update "With-Site-Visit" Reserve Study, meeting or exceeding all requirements of the RCW. This study was prepared by, or under the supervision of a credentialed Reserve Specialist (RS™).
- Your Reserve Fund is currently 75.0 % 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.
- Based on this starting point and your anticipated future expenses, our recommendation is to budget Reserve Contributions to within the 70% to 100% range as noted above. The 100% “Full” and 70% contribution rates are designed to gradually achieve these funding objectives by the end of our 30-year report scope.
- No assets appropriate for Reserve designation known to be excluded. See appendix for component information and the basis of our assumptions.

Unaudited Supplementary Information

Executive Summary

17195-2

# Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Average Cost
Site / Grounds			
120 Asphalt - Resurface	30	15	\$10,950
121 Asphalt - Seal/Repair	5	1	\$3,100
142 Wood Arbors - Repair/Replace	25	10	\$7,650
160 Pole Lights - Replace	30	15	\$5,750
170 Landscape - Refurbish	4	4	\$4,500
Building Exterior			
500 Steep Slope Roofing - Recover	25	10	\$28,800
505 Low Slope Roof - Recover	15	5	\$90,250
508 Skylights - Replace	25	10	\$18,900
510 Gutters/Downspouts - Repair/Replace	40	25	\$9,700
525 Siding: Hardieplank - Paint/Caulk	10	5	\$19,550
526 Exterior Wood Trim - Paint/Caulk	5	0	\$20,000
530 Siding: Stucco - Clean/Inspect	15	0	\$3,350
535 Windows - Replace	40	25	\$131,000
540 Decks - Clean/Repair/Re-coat	8	2	\$15,300
550 Deck Rail - Repair/Replace	40	25	\$29,500
580 Deck Doors - Repaint	15	0	\$3,850
605 Garage Doors - Repair/Replace	30	15	\$15,300
610 Garage Door Operators - Replace	15	0	\$3,300
Building Interior			
700 Carpet - Replace	15	0	\$40,100
710 Interior Walls/Trim - Paint	8	0	\$30,600
712 Stairwells - Paint	10	9	\$6,600
760 Furniture - Replace	20	5	\$2,750
Systems / Equipment / Other			
950 Entry Access System - Replace	15	3	\$2,750
955 Security Equipment - Replace	20	5	\$1,650
960 Elevator - Modernize	30	15	\$90,000
961 Elevator Cab - Remodel	20	5	\$7,650
965 Fire Alarm Panel - Replace	20	5	\$2,750
967 Fire System Pumps/Valves - Replace	20	5	\$6,500
999 Reserve Study - Update	3	2	\$1,900
29 Total Funded Components			

Note 1: **Yellow highlighted** line items are expected to require attention in this initial year.