

**Nine-Mile Ranch Homeowners Association
Financial Statements
For the Year Ended May 31, 2019**



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Independent Auditor's Report

To the Board of Directors of Nine-Mile Ranch Homeowners Association

We have audited the accompanying financial statements of Nine-Mile Ranch Homeowners Association (the "Association") which comprise the balance sheet as of May 31, 2019, and the related statements of revenues, expenses, and changes in fund balance and cash flows 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nine-Mile Ranch Homeowners Association as of May 31, 2019, and 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.

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.

Omission of Required Supplementary Information about Future Major Repairs and Replacements

Management has omitted supplementary information about future repairs and replacements that accounting principles generally accepted in the United States of America require to 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. Our opinion on the basic financial statements is not affected by the information.

Newman & Associates, CPA, PC

Newman & Associates, CPA, PC
Bellevue, Washington
August 08, 2019

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Nine-Mile Ranch Homeowners Association
Balance Sheet
May 31, 2019

	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalents	\$ 33,508	\$ -	\$ 33,508
Investments		33,346	33,346
Assessments receivable	13,429		13,429
Allowance for doubtful accounts	(12,326)		(12,326)
Prepaid insurance	991		991
Total assets	<u>\$ 35,602</u>	<u>\$ 33,346</u>	<u>\$ 68,948</u>
Liabilities			
Accounts payable	\$ 1,730	\$ -	\$ 1,730
Prepaid assessments	383		383
Income taxes payable	19		19
Total liabilities	<u>2,132</u>	<u>-</u>	<u>2,132</u>
Fund balances	<u>33,470</u>	<u>33,346</u>	<u>66,816</u>
Total liabilities and fund balances	<u>\$ 35,602</u>	<u>\$ 33,346</u>	<u>\$ 68,948</u>

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

Nine-Mile Ranch Homeowners Association
Statement of Revenue and Expenses and Changes in Fund Balances
For the Year Ended May 31, 2019

	Operating Fund	Replacement Fund	Total
Revenues			
Owners assessments	\$ 53,451	\$ -	\$ 53,451
Late fees	5,611		5,611
Interest	10	378	388
Other member income	2,006		2,006
Total revenues	<u>61,078</u>	<u>378</u>	<u>61,456</u>
Expenses			
Utilities			
Maintenance			
Landscape and irrigation	12,001		12,001
Common area repairs and maintenance	22,851		22,851
Road maintenance	13,923		13,923
	<u>48,775</u>	<u>-</u>	<u>48,775</u>
Administrative			
Insurance	198		198
Administrative expense	2,919		2,919
Legal and professional	7,636		7,636
Licenses, permits, fees and taxes	20		20
Federal taxes	19		19
Bad debt expense (recoveries)	12,326		12,326
	<u>23,118</u>	<u>-</u>	<u>23,118</u>
Total expenses	<u>71,893</u>	<u>-</u>	<u>71,893</u>
Excess (deficit) of revenues over (under) expenses	(10,815)	378	(10,437)
Beginning fund balances	44,508	32,745	77,253
Interfund transfers	(223)	223	-
Ending fund balances	<u>\$ 33,470</u>	<u>\$ 33,346</u>	<u>\$ 66,816</u>

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

Nine-Mile Ranch Homeowners Association
Statement of Cash Flows
For the Year Ended May 31, 2019

	Operating Fund	Replacement Fund	Total
Excess of revenues over expenses	\$ (10,815)	\$ 378	\$ (10,437)
Adjustments to reconcile excess (deficit) of revenues over (under) expenses to net cash provided (used) by operating activities			
Decrease (Increase) in operating assets:			
Accounts receivable	2,661		2,661
Allowance for doubtful accounts	12,326		12,326
Prepaid insurance	(991)		(991)
Increase (decrease) in operating liabilities:			
Accounts payable	(1,914)		(1,914)
Prepaid assessments	383		383
Income taxes payable	19		19
Total adjustments	12,484	-	12,484
Net cash provided (used) by operating activities	1,669	378	2,047
Cash provided (used) by investing activities			
Change in investments		(601)	(601)
Net cash provided (used) by investing activities	-	(601)	(601)
Cash provided (used) by financing activities			
Interfund transfers	(223)	223	-
Net cash provided (used) by financing activities	(223)	223	-
Net increase (decrease) in cash and cash equivalents	1,446	-	1,446
Beginning cash and cash equivalents	32,062	-	32,062
Ending cash and cash equivalents	33,508	\$ -	\$ 33,508
SUPPLEMENTAL DISCLOSURE			
Income taxes paid			\$ -
Interest paid			\$ -

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

**Nine-Mile Ranch Homeowners Association
Notes to Financial Statements
For the Year Ended May 31, 2019**

1. Organization

Nine-Mile Ranch Homeowners Association (the "Association") was incorporated on October 28, 1994 as a nonprofit corporation under the laws of Washington, for the purposes of maintaining and preserving common property. The Association consists of 311 twenty acre lots and is located in Oroville, Washington.

2. Summary of Significant Accounting Policies**Basis of Accounting**

The Association maintains its financial records on the accrual basis of accounting, which recognizes revenues when earned and expenses when incurred.

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.

Investments

Investments consist of certificates of deposit and other securities and investment accounts with original maturities of more than 90 days.

Subsequent Events

Subsequent events have been evaluated through August 08, 2019, which is the date the financial statements were available to be issued.

**Nine-Mile Ranch Homeowners Association
Notes to Financial Statements
For the Year Ended May 31, 2019**

3. Assessments and Assessments Receivable

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable represent fees due from owners. 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.

The Association records an allowance for doubtful accounts to reflect an estimate of accounts that may not be collectible, which includes accounts receivable greater than 90 days old.

4. Future Major Repairs and Replacements

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

The board of directors has not conducted nor updated a reserve study to estimate the remaining useful lives and replacement costs of the components of common property. Therefore, these financial statements have omitted all supplementary information on future major repairs and replacements that would have been presented if a reserve study had been prepared.

The Association allocated funds to the replacement fund based on the Association's budget. Typically, in the event a reserve study was prepared, the Association would fund such major repairs and replacements over the estimated useful lives of the components based on a study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures may vary from any estimates used to fund the replacement fund, 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, 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

Association 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.