

**Nine-Mile Ranch Homeowners Association  
Financial Statements  
For the Year Ended May 31, 2021**



**NEWMAN**  
Certified Public Accountant, PC

**Nine-Mile Ranch Homeowners Association  
Financial Statements  
For the Year Ended May 31, 2021**

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**TABLE OF CONTENTS**

Independent Auditor's Report.....	3
Balance Sheet.....	4
Statement of Revenues and Expenses and Changes in Fund Balances.....	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7-10



### 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, 2021, 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, 2021, 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 5 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 Certified Public Accountant, PC.*

Newman Certified Public Accountant, PC  
Bellevue, Washington  
January 17, 2022

**Nine-Mile Ranch Homeowners Association**  
**Balance Sheet**  
**May 31, 2021**

	Operating Fund	Replacement Fund	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 27,195	\$ 10,360	\$ 37,555
Investments		34,361	34,361
Assessments receivable	29,689		29,689
Allowance for doubtful accounts	(25,115)		(25,115)
Prepaid insurance	1,173		1,173
Equipment	18,560		18,560
Accumulated depreciation	(3,712)		(3,712)
<b>Total assets</b>	<b>\$ 47,790</b>	<b>\$ 44,721</b>	<b>\$ 92,511</b>
<b>Liabilities</b>			
Accounts payable	\$ 4,767	\$ -	\$ 4,767
Prepaid assessments	1,094		1,094
Deferred special assessment	14,121		14,121
Contract liabilities (Assessments received in advance - replacement fund)		44,558	44,558
<b>Total liabilities</b>	19,982	44,558	64,540
<b>Fund balances</b>	27,808	163	27,971
<b>Total liabilities and fund balances</b>	<b>\$ 47,790</b>	<b>\$ 44,721</b>	<b>\$ 92,511</b>

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

**Nine-Mile Ranch Homeowners Association**  
**Statement of Revenues, Expenses and Changes in Fund Balances**  
**For the Year Ended May 31, 2021**

	Operating Fund	Replacement Fund	Total
<b>Revenues</b>			
Owners assessments	\$ 55,904	\$ -	\$ 55,904
Special assessments	17,867	-	17,867
Late fees	13,350		13,350
Interest	5	163	168
Other member income	2,312		2,312
<b>Total revenues</b>	<u>89,438</u>	<u>163</u>	<u>89,601</u>
<b>Expenses</b>			
Utilities			
Maintenance			
Landscape and irrigation	14,664		14,664
Common area repairs and maintenance	18,728		18,728
Special assessment expense	17,867		17,867
Road maintenance	8,713		8,713
Snow removal	19,322		19,322
	<u>79,294</u>	<u>-</u>	<u>79,294</u>
Administrative			
Insurance	167		167
Administrative expense	4,062		4,062
Depreciation expense	3,712		3,712
Legal and professional	12,199		12,199
Licenses, permits, fees and taxes	236		236
Bad debt expense	25,115		25,115
	<u>45,491</u>	<u>-</u>	<u>45,491</u>
<b>Total expenses</b>	<u>124,785</u>	<u>-</u>	<u>124,785</u>
<b>Excess (deficit) of revenues over (under) expenses</b>	(35,347)	163	(35,184)
<b>Beginning fund balances</b>	58,831	-	58,831
Transfer to/from contract liabilities	10,000		10,000
Prior period adjustment	(5,676)	-	(5,676)
<b>Ending fund balances</b>	<u>\$ 27,808</u>	<u>\$ 163</u>	<u>\$ 27,971</u>

**Nine-Mile Ranch Homeowners Association**  
**Statement of Cash Flows**  
**For the Year Ended May 31, 2021**

	Operating Fund	Replacement Fund	Total
<b>Excess of revenues over expenses</b>	\$ (35,347)	\$ 163	\$ (35,184)
Adjustments to reconcile excess (deficit) of revenues over (under) expenses to net cash provided (used) by operating activities			
Depreciation	3,712	-	3,712
Decrease (Increase) in operating assets:			
Assessments receivable	(3,972)		(3,972)
Allowance for doubtful accounts	25,115		25,115
Prepaid insurance	(1,173)		(1,173)
Increase (decrease) in operating liabilities:			
Accounts payable	4,767		4,767
Prepaid assessments	1,094		1,094
Deferred special assessment	14,121		14,121
Contract liabilities (Assessments received in advance - replacement fund)		(7,000)	(7,000)
Prior period adjustment	(5,676)		(5,676)
Total adjustments	<u>37,988</u>	<u>(7,000)</u>	<u>30,988</u>
Net cash provided (used) by operating activities	<u>2,641</u>	<u>(6,837)</u>	<u>(4,196)</u>
Cash provided (used) by investing activities			
Change in investments		(162)	(162)
Net cash provided (used) by investing activities	<u>-</u>	<u>(162)</u>	<u>(162)</u>
Cash provided (used) by financing activities			
Transfer to contract liabilities	10,000		10,000
Net cash provided (used) by financing activities	<u>10,000</u>	<u>-</u>	<u>10,000</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	12,641	(6,999)	5,642
Beginning cash and cash equivalents	14,554	17,359	31,913
<b>Ending cash and cash equivalents</b>	<u>\$ 27,195</u>	<u>\$ 10,360</u>	<u>\$ 37,555</u>
<b>SUPPLEMENTAL DISCLOSURE</b>			
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, 2021**

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**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 lots and is located in Oroville, Washington.

**2. Date of Management's Review**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through January 17, 2022, the date that the financial statements were available to be issued.

**3. Summary of Significant Accounting Policies**

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 revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

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 - The fund is used to account for financial resources available for the general operations of the Association.

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

Members Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on properties of owners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The balances of assessments receivable as of the beginning and end of the year are \$25,717 and \$29,689, respectively. After the Board of Directors has exhausted all efforts to collect delinquent accounts, the Board of Directors may elect to write off uncollectible balances.

The Association recorded an allowance for doubtful accounts of \$25,115 to reflect an estimate of accounts that may not be collectible.

**Nine-Mile Ranch Homeowners Association**  
**Notes to Financial Statements**  
**For the Year Ended May 31, 2021**

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Property and Equipment

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.

Contract Liabilities (Assessments received in advance - replacement fund)

The Association recognizes replacement fund (reserves) revenue from members as related performance obligations are satisfied. A contract liability (assessments received in advance - replacement fund) is recorded when the Association has the right to receive payment in advance of satisfaction of performance obligations related to replacement reserve assessments. The balances of Contract Liabilities (assessments received in advance - replacement fund) as of the beginning and end of the year are \$51,558 and \$44,558, respectively.

Income Tax

The Association's policy is to record interest expense or penalties related to income tax in operating expenses.

Interest Income

Interest income is recognized when earned and allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

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.

**4. Income Taxes**

Common Interest Realty Associations are generally taxed either as a qualifying Internal Revenue Code (IRC) Section 528 homeowners' association or as a regular corporation subject to the special provisions of IRC Section 277 for membership organizations. For the current year, the Association has met IRC Section 528 eligibility requirements and has chosen to file Form 1120-H for its federal income tax return. The income tax filing determination is assessed for each tax year and only pertains to the tax year being evaluated.

IRC Section 528 requires that the Association separates all of its income and expense activity between three categories: exempt function, nonexempt function and capital. Taxable income includes net nonexempt function income, such as interest and other nonmember sourced income. In the determination of net taxable income, certain expenses were allocated to offset a portion of the Association's taxable income. The Form 1120-H tax rate is 30%.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Association and has concluded that as of the year end, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions. The Internal Revenue Service can examine the Association's income tax returns generally up to three years. There are currently no audits in progress for any tax period.

**Nine-Mile Ranch Homeowners Association**  
**Notes to Financial Statements**  
**For the Year Ended May 31, 2021**

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**5. 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 bank accounts and are generally not available for operating fund expenses.

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.

**6. FASB ASC 606 New Accounting Guidance Implementation**

The Financial Accounting Standards Board (FASB) issued ASC 606 guidance, Revenue from Contracts with Customers, effective January 1, 2019, which superseded the revenue recognition requirements in FASB ASC 972-605, Real Estate - Common Interest Realty Associations (CIRA), Revenue Recognition. The Association has presented the attached financial statements in accordance with FASB ASC 606. Assessments attributed to the Operating Fund are recognized in the period earned. Assessments allocated to the Replacement Fund are recognized as revenue only when there are replacement fund expenditures, and to the extent the replacement fund expenditures exceed replacement fund interest income.

The cumulative balance of Replacement Fund assessments that have not been recognized as income are accumulated as deferred replacement fund assessments and presented as Contract Liabilities (Assessments received in advance - Replacement fund) on the Balance Sheet. Deferred replacement fund assessments are increased by unrecognized replacement fund assessments and decreased as replacement fund assessments are recognized as revenue in the Statement of Revenue and Expenses and Changes in Fund Balances.

Contract liabilities (Assessments received - in advance - replacement fund) as of June 1, 2020	\$51,558
Assessments budgeted for Replacement Fund	\$3,000
Recognized Replacement Fund assessments	\$0
Adjustment and transfer to/from contract liabilities	\$(10,000)
Contract liabilities (Assessments received - in advance - replacement fund) as of May 31, 2021	<u>\$44,558</u>

**Nine-Mile Ranch Homeowners Association**  
**Notes to Financial Statements**  
**For the Year Ended May 31, 2021**

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**7. COVID-19**

The World Health Organization has declared COVID-19 to constitute a “Public Health Emergency of International Concern” and characterized COVID-19 as a pandemic. In the United States, the federal and state governments have implemented enhanced screenings, quarantine requirements, and travel restrictions in connection with the COVID-19 outbreak. The spread of this virus began causing business disruptions domestically beginning in 2019 that are anticipated to continue for the foreseeable future. The extent of the impact of the COVID-19 pandemic on the Association's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and the impact of the COVID-19 pandemic on overall demand for the Association's services and the ability of owners to pay assessments, all of which are highly uncertain and cannot be predicted.

**8. Legal**

The Association has engaged legal counsel to review various matters and advise the Board of Directors. As of the date of this report, outcomes have not been determined and any gain or loss contingencies are not estimable, thus amounts have not been accrued in the accompanying financial statements. The Association is engaged in arbitration with a homeowner regarding CCR violations and levied a subsequent special assessment to pay for the additional legal costs (Note 11).

**9. Special Assessment**

During the year ended May 31, 2019, the members approved a special assessment totaling \$73,568 to purchase a road rake and gravel. Owners were to pay in two installments. Special assessment revenue is recognized as related expenses are incurred. During the year ended May 31, 2021, special assessment revenue totaled \$17,867. Deferred special assessment income totaled \$14,121.

**10. Prior Period Adjustment**

An adjustment has been recorded to a prior period totaling \$5,676 to recognize special assessment revenue at the time related expenses were incurred. The correction has no effect on the results of the current year's operations.

**11. Subsequent Event - Special Assessment**

In August 2021, the Board of Directors approved two special assessments; one to fund a winter sanding facility and one to fund court arbitration with a homeowner (Note 8). The assessments, in aggregate, totaled \$22,988.