

THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION

INDEPENDENT AUDITOR'S REPORT

AND

AUDITED FINANCIAL STATEMENTS

FOR THE

YEAR ENDED DECEMBER 31, 2011

AND

UNAUDITED SUPPLEMENTARY INFORMATION

THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION

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# Joseph H. Vandal, CPA, PS

Member of American Institute of CPAs, Washington Society of CPAs  
A Professional Service Corporation

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## INDEPENDENT AUDITOR'S REPORT

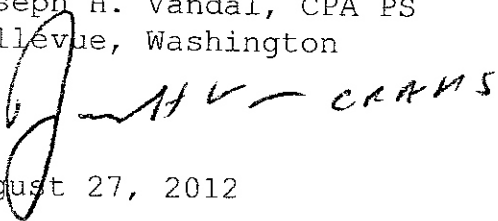
To the Board of Directors and Members  
The Villages of Garrison Creek Master Property Management Association

We have audited the accompanying balance sheet of The Villages of Garrison Creek Master Property Management Association as of December 31, 2011, and the related statements of revenues, expenses, and changes in fund balance 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 statement 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 The Villages of Garrison Creek Master Property Management Association as of December 31, 2011, and the results of its operations and its cash flows for year then ended, in conformity with accounting principles generally accepted in the United States of America.

Joseph H. Vandal, CPA PS  
Bellevue, Washington



JHV - CPAS

August 27, 2012

THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION  
BALANCE SHEET  
December 31, 2011

	OPERATING FUND	REPLACEMENT RESERVE FUND	TOTAL
<u>ASSETS</u>			
Cash-Checking	\$ 40,736	\$ -	\$ 40,736
Cash-Replacement Reserve	-	44,344	44,344
Certificates of Deposit	-	92,363	92,363
Prepaid Insurance	843	-	843
	\$ 41,579	\$ 136,707	\$ 178,286
 <u>LIABILITIES AND FUND BALANCE</u>			
Accounts Payable	\$ 4,690	\$ -	\$ 4,690
Prepaid Assessments	48	-	48
	4,738	-	4,738
Total Liabilities	4,738	-	4,738
Fund Balance	36,841	136,707	173,548
Total Liabilities & Fund Balance	\$ 41,579	\$ 136,707	\$ 178,286



THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION  
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND BALANCE  
For the Year Ended December 31, 2011

	OPERATING FUND	REPLACEMENT RESERVE FUND	TOTAL
REVENUES			
Assessments			
Regular	\$ 114,396	\$ -	\$ 114,396
Interest	-	269	269
TOTAL REVENUE	114,396	269	114,665
EXPENSES			
Administration	6,641	-	6,641
Professional	6,000	-	6,000
Insurance	4,317	-	4,317
Repairs and Maintenance	4,048	-	4,048
Grounds and Landscape	57,592	-	57,592
Electricity	14,991	-	14,991
Income Taxes	194	-	194
TOTAL EXPENSES	93,783	-	93,783
REVENUES OVER/(UNDER) EXPENSES	20,613	269	20,882
BEGINNING FUND BALANCE	24,004	128,662	152,666
Transfer to (from)	(7,776)	7,776	-
ENDING BALANCE	\$ 36,841	\$ 136,707	\$ 173,548

THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION  
STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2011

	OPERATING FUND	REPLACEMENT RESERVE FUND	TOTAL
<u>CASH FLOWS FROM OPERATING</u>			
<u>ACTIVITIES</u>			
REVENUE OVER/(UNDER) EXPENSES	\$ 20,613	\$ 269	\$ 20,882
Adjustments to reconcile excess of expenses over revenues to net cash provided by activities:			
(Increase) Decrease in:			
Prepaid Insurance	(143)	-	(143)
Increase (Decrease) in:			
Accounts Payable	218	-	218
Prepaid Assessments	48	-	48
	<u>20,736</u>	<u>269</u>	<u>21,005</u>
<u>NET CASH PROVIDED BY</u> <u>OPERATING ACTIVITIES</u>			
<u>CASH FLOWS FROM</u>			
<u>FINANCING ACTIVITIES</u>			
Interfund transfers	(7,776)	7,776	-
<u>NET CASH (USED) PROVIDED</u> <u>BY FINANCING ACTIVITIES</u>	<u>(7,776)</u>	<u>7,776</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH & EQUIVALENTS	12,960	8,045	21,005
CASH & EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>27,776</u>	<u>128,662</u>	<u>156,438</u>
CASH & EQUIVALENTS AT END OF THE PERIOD	<u>\$ 40,736</u>	<u>\$ 136,707</u>	<u>\$ 177,443</u>
<u>SUPPLEMENTAL DISCLOSURE</u>			
Income Taxes Paid	<u>\$ 194</u>	<u>\$ -</u>	<u>\$ 194</u>

**THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

**NOTE A - NATURE OF ORGANIZATION**

The Villages of Garrison Creek Master Property Management Association (the "Association") is a statutory homeowners' association in the State of Washington organized and incorporated in 2003. The Association is responsible for the operation and maintenance of the common property of The Villages of Garrison Creek, a planned unit development located in College Place Washington. The Villages of Garrison Creek currently contains 203 residential lots, the owners of which are members of the Association.

The Villages of Garrison Creek is currently comprised of seven villages delineated by subdivision or division thereof. Each village has the right to govern and control issues, in harmony with the Association's governing documents, that are distinct to that particular village or are delegated to it by the Association. None of the financial transactions of the individual villages are included in the Association's financial statements.

**NOTE B - DATE OF MANAGEMENT'S REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 9, 2012, the date that the financial statements were available to be issued.

**NOTE C-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 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 the 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, insurance proceeds (if any), insurance repairs (if any), and litigation costs (if any) relating to the afore mentioned proceeds.

See Independent Auditor's Report and Notes to Financial Statements

**THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

**NOTE C-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

Cash and Cash Equivalents

The Association considers cash on deposit, cash on hand, money market funds (if any) and certificates of deposit (if any) and any other highly-liquid securities to be cash and or cash equivalents. Any penalties for early withdrawal would not have a material effect on the financial statements.

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. Assessments receivable at the balance sheet date represent fees due from lot owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. If assessments are inadequate, the Board of Directors, subject to the limitations of their authority described in the Association's governing documents, may have to increase regular assessments or pass special assessments.

Property and Equipment

Real property designated for common use by owners, their tenants and guests is not recorded in the Association's financial statements. Although the property is owned by the Association, the asset is not recognized under generally accepted accounting principles since it is an integral part of the planned unit development and as such cannot be disposed of by the Association in the ordinary course of business. Personal property acquired by the Association is capitalized at cost and depreciated using the straight-line method.

**THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**NOTE C-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

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 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 D-INCOME TAXES**

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. In 2011, the Association elected to be taxed as a homeowners' association. Under that election, the Association is taxed on its nonexempt function income, such as net interest earnings, at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable.

**NOTE E-FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds (assets less liabilities as reported on the balance sheet), which in aggregate are approximately \$136,707 at December 31, 2011, are held in separate accounts and are generally not available for operating purposes. Cash balances shown on the balance sheet that are part of these funds are held in separate bank accounts.

**THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

**NOTE E-FUTURE MAJOR REPAIRS AND REPLACEMENTS-CONTINUED**

The Association engaged a specialist who conducted a study update in 2012 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is partially funding for such major repairs and replacements over the estimated lives of the components based on the study's estimates of current 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 future needs. If additional funds are needed, however, the Association has the right, subject to the limitations of the authority described in the Association's governing documents, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

**NOTE F-COMMITMENTS**

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

**SUPPLEMENTARY INFORMATION**

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## INDEPENDENT AUDITOR'S REPORT ON UNAUDITED SUPPLEMENTARY INFORMATION

To the Board of Directors and Members  
The Villages of Garrison Creek Master Property Management Association

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 11 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.

Joseph H. Vandal, CPA PS  
Bellevue, Washington



Joseph H. Vandal - CPA PS

August 27, 2012



**THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION  
UNAUDITED SUPPLEMENTARY INFORMATION ON  
FUTURE MAJOR REPAIRS AND REPLACEMENTS  
December 31, 2011**

A specialist conducted a study with an update in 2012 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. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following information on page 11 is based on the study and present significant information about the components of common property:

THE SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND  
REPLACEMENTS THAT HAS NOT BEEN AUDITED APPEARS ON PAGE 11

See Independent Auditor's Report on Unaudited Supplementary  
Information on Page 9

UNAUDITED SUPPLEMENTARY INFORMATION

THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION

Future Major Repairs and Replacements Reserve Fund

December 31, 2011

Reserve Components	Estimated Years of Life	Estimated Replacement Cost	Estimated Remaining Years of Life	Ideal Reserve Amount
Asphalt Seal Coat & Repairs-Phase VIII	6	\$ 7,363	5	\$ 1,227
Asphalt Seal Coat & Repairs-Phases	6	52,010	3	26,005
Astroturf-Putting Green	10	17,971	1	16,174
Benches	10	1,935	2	1,548
Bridges	30	29,783	18	11,913
Clock Tower-Paint	7	1,288	3	736
Controllers-Irrigation-Battery	5	2,100	0	2,100
Controllers-Irrigation-Electric	10	19,000	5	9,500
Gazebo-Paint	6	1,800	0	1,800
Generator	15	10,418	6	6,251
Irrigation System in Creek	15	12,149	3	9,719
Pond-Fountain	12	4,395	7	1,831
Pond-Liner	6	4,856	0	4,856
Pond-Maintenance	10	10,000	2	8,000
Pond-Pump	12	6,045	8	2,015
Power Washer	12	604	8	201
Pump 1-High Water/Ground Water	12	12,386	4	8,257
Pump 2-High Water/Ground Water	12	3,823	4	2,549
Pump House-Major Renov./Replace	24	10,944	15	4,104
Pump House-Paint	6	1,200	0	1,200
Roof-Maintenance-Gazebo	3	750	0	750
Walking Path	8	2,456	0	2,456
Well System in Clock Tower	15	17,922	3	14,338
TOTALS		<u>\$ 231,198</u>		<u>\$ 137,530</u>
Replacement Reserve Fund Balance				<u>136,707</u>
Variance				<u>\$ (823)</u>
Funding %				99.4%

*The ideal year-end reserve is calculated by using the estimated replacement cost divided by the estimated years of life multiplied by the years in service.*

*Items that may be considered for future inclusion in the reserve fund include seal coating and pavement overlay for Garrison Village Way, pavement overlay for phase streets, and a provision for the eventual major renovation/replacement of the clock tower and gazebo.*

*Source: The Management Trust/Northwest - 01/03/2012 Reserve Study*

See Independent Auditor's Report on Unaudited Supplementary Information on Page 9