

THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION

INDEPENDENT AUDITOR'S REPORT

AND

AUDITED FINANCIAL STATEMENTS

FOR THE

YEAR ENDED DECEMBER 31, 2013

AND

UNAUDITED SUPPLEMENTARY INFORMATION

THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION

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

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 financial statements of The Villages of Garrison Creek Master Property Management Association, which comprise the balance sheet as of December 31, 2013, 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.

INDEPENDENT AUDITOR'S REPORT--Continued

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

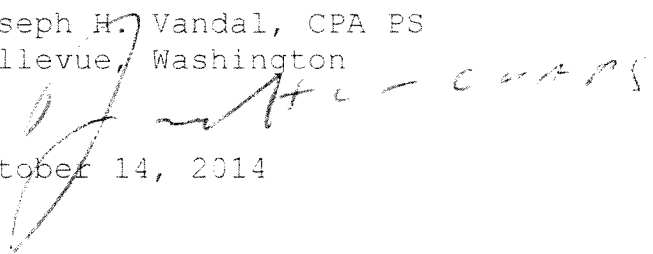
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Villages of Garrison Creek Master Property Management Association as of December 31, 2013, 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.

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 on common property on page 10 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 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


October 14, 2014

THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION
BALANCE SHEET
December 31, 2013

	OPERATING FUND	REPLACEMENT RESERVE FUND	TOTAL
<u>ASSETS</u>			
Cash-Checking	\$ 25,196	\$ -	\$ 25,196
Cash-Replacement Reserve	-	30,507	30,507
Certificates of Deposit	-	120,199	120,199
Prepaid Insurance	2,037	-	2,037
Total Assets	\$ 27,233	\$ 150,706 ✓	\$ 177,939
 <u>LIABILITIES AND FUND BALANCE</u>			
Accounts Payable	\$ 7,324	\$ -	\$ 7,324
Total Liabilities	7,324	-	7,324
Fund Balance	19,909	150,706	170,615
Total Liabilities & Fund Balance	\$ 27,233	\$ 150,706	\$ 177,939

THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND BALANCE
For the Year Ended December 31, 2013

	OPERATING FUND	REPLACEMENT RESERVE FUND	TOTAL
REVENUES			
Assessments			
Regular	\$ 86,802	\$ 22,818	\$ 109,620
Interest	-	191	191
TOTAL REVENUE	86,802	23,009	109,811
EXPENSES			
Administration	8,097	-	8,097
Professional	6,000	-	6,000
Insurance	3,953	-	3,953
Repairs and Maintenance	7,833	-	7,833
Grounds and Landscape	52,510	-	52,510
Electricity	16,315	-	16,315
Reserve Study	1,475	-	1,475
Major Repairs and Replacements	-	19,940	19,940
TOTAL EXPENSES	96,183	19,940	116,123
REVENUES OVER/(UNDER) EXPENSES	(9,381)	3,069	(6,312)
BEGINNING FUND BALANCE	29,290	147,637	176,927
Transfer to (from)	-	-	-
ENDING BALANCE	\$ 19,909	\$ 150,706	\$ 170,615

THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2013

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
<u>CASH FLOWS FROM OPERATING</u>			
<u>ACTIVITIES</u>			
REVENUE OVER/(UNDER) EXPENSES	\$ (9,381)	\$ 3,069	\$ (6,312)
Adjustments to reconcile excess of expenses over revenues to net cash provided by activities:			
(Increase) Decrease in:			
Prepaid Insurance	(121)	-	(121)
Increase (Decrease) in:			
Accounts Payable	<u>5,221</u>	<u>-</u>	<u>5,221</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>(4,281)</u>	<u>3,069</u>	<u>(1,212)</u>
<u>CASH FLOWS FROM</u>			
<u>FINANCING ACTIVITIES</u>			
Interfund transfers	<u>-</u>	<u>-</u>	<u>-</u>
<u>NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH & EQUIVALENTS	(4,281)	3,069	(1,212)
CASH & EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>29,477</u>	<u>147,637</u>	<u>177,114</u>
CASH & EQUIVALENTS AT END OF THE PERIOD	<u>\$ 25,196</u>	<u>\$ 150,706</u>	<u>\$ 175,902</u>
<u>SUPPLEMENTAL DISCLOSURE</u>			
Income Taxes Paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

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 October 14, 2014, 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, 2013

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 unit 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 and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by individual unit owners in common and not by the Association. The Association capitalizes personal property at cost and depreciates it using the straight-line method.

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.

THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE D-COMMITMENTS

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

NOTE E-INCOME TAXES

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. In 2013, 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.

As of December 31, 2013, the tax years that remain subject to examination by taxing authorities begin with 2010.

NOTE F-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 \$150,706 at December 31, 2013, 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 Association engaged a specialist who conducted a study update in 2013 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.

**THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION
UNAUDITED SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS
December 31, 2013**

A specialist conducted a study update in 2013 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 10 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 10

UNAUDITED SUPPLEMENTARY INFORMATION

THE VILLAGES OF GARRISON CREEK MASTER PROPERTY MANAGEMENT ASSOCIATION
 Future Major Repairs and Replacements Reserve Fund
 December 31, 2013

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	3	\$ 3,682
Asphalt Seal Coat & Repairs-Phases	6	52,010	1	43,342
Astroturf-Putting Green	10	22,781	9	2,278
Benches	10	1,935	0	1,935
Bridges	30	29,783	16	13,899
Clock Tower-Paint	7	1,288	1	1,104
Controllers-Irrigation-Battery	5	2,100	3	840
Controllers-Irrigation-Electric	10	19,000	3	13,300
Gazebo-Paint	6	2,075	4	692
Generator	15	10,418	4	7,640
Irrigation System in Creek	15	12,149	1	11,339
Pond-Fountain	12	4,395	5	2,564
Pond-Liner	6	5,599	4	1,866
Pond-Maintenance	10	10,000	0	10,000
Pond-Pump	12	6,045	6	3,023
Power Washer	12	604	6	302
Pump 1-High Water/Ground Water	12	12,386	2	10,322
Pump 2-High Water/Ground Water	12	3,823	2	3,186
Pump House-Major Renov./Replace	24	10,944	13	5,016
Pump House-Paint	6	1,384	4	461
Roof-Maintenance-Gazebo	3	750	1	500
Walking Path	8	2,456	6	614
Well System in Clock Tower	15	<u>17,922</u>	1	<u>16,727</u>
TOTALS		<u>\$ 237,210</u>		<u>\$ 154,630</u>
Replacement Reserve Fund Balance				150,705
Variance				<u>\$ (3,925)</u>
Funding %				97.5%

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.

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