

**Big Trout Condominium Association
Financial Statements - Modified Cash Basis
For the Year Ended December 31, 2020**



NEWMAN
Certified Public Accountant, PC

**Big Trout Condominium Association
Financial Statements
For the Year Ended December 31, 2020**

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Independent Auditor's Report

To the Board of Directors of Big Trout Condominium Association

We have audited the accompanying financial statements of Big Trout Condominium Association (the "Association") which comprise the statement of assets, liabilities and fund balances - modified cash basis as of December 31, 2020, and the related statement of revenues, expenses, and changes in fund balances - modified cash basis, 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 the modified cash basis of accounting described in Note 3; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal controls 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 qualified audit opinion.

Basis For Qualified Opinion

We were unable to obtain sufficient appropriate audit evidence regarding the existence or accuracy of fixed assets, accumulated depreciation and land with a net book balance of \$83,962.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the statement of assets, liabilities, and fund balances - modified cash basis of Big Trout Condominium Association as of December 31, 2020, and its revenues, expenses and changes in fund balances - modified cash basis, for the year then ended, in accordance with the modified cash basis of accounting described in Note 3.

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.

Emphasis of a Matter - Basis of Accounting

We draw attention to Note 3 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter. This means that receipts have been recorded as revenues and disbursements have been recorded as expenses.

Disclaimer of Opinion of Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Supplementary Information on Future Repairs and Replacements 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 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.

Newman Certified Public Accountant, PC.

Big Trout Condominium Association
Statement of Assets, Liabilities and Fund Balances - Modified Cash Basis
December 31, 2020

	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalents	\$ 74,383	\$ 278,930	\$ 353,313
Investments		526,120	526,120
Fixed assets	256,917		256,917
Land	55,450		55,450
Accumulated depreciation	(228,405)		(228,405)
Total assets	\$ 158,345	\$ 805,050	\$ 963,395
Liabilities			
Total liabilities	-	-	-
Fund balances	158,345	805,050	963,395
Total liabilities and fund balances	\$ 158,345	\$ 805,050	\$ 963,395

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

Big Trout Condominium Association
Statement of Revenues, Expenses and Changes in Fund Balances - Modified Cash Basis
For the Year Ended December 31, 2020

	Operating Fund	Replacement Fund	Total
Revenues			
Owners assessments	\$ 671,784	\$ -	\$ 671,784
Late fees	269		269
Interest		16,246	16,246
Other member income	790		790
Total revenues	<u>672,843</u>	<u>16,246</u>	<u>689,089</u>
Expenses			
Utilities			
Electricity and gas	22,437		22,437
Water and sewer	106,027		106,027
Trash removal	5,827		5,827
Cable	115,189		115,189
Internet	19,677		19,677
	<u>269,157</u>	<u>-</u>	<u>269,157</u>
Maintenance			
Landscape and irrigation	38,798		38,798
Common area repairs and maintenance	14,314	1,970	16,284
Pool and spa	6,106	5,073	11,179
Pest control	849		849
Street sweeping	1,679		1,679
Painting		1,190	1,190
Fitness facilities	1,203		1,203
Asphalt		178,944	178,944
Snow removal	12,919		12,919
	<u>75,868</u>	<u>187,177</u>	<u>263,045</u>
Administrative			
Insurance	49,304		49,304
Management	40,320		40,320
Administrative expense	3,172		3,172
Accounting services	3,700		3,700
Depreciation expense	16,365		16,365
Legal and professional	5,647		5,647
Federal taxes	3,792		3,792
	<u>122,300</u>	<u>-</u>	<u>122,300</u>
Total expenses	<u>467,325</u>	<u>187,177</u>	<u>654,502</u>
Excess (deficit) of revenues over (under) expenses	205,518	(170,931)	34,587
Beginning fund balances	152,831	775,977	928,808
Interfund transfers	(200,004)	200,004	-
Ending fund balances	<u>\$ 158,345</u>	<u>\$ 805,050</u>	<u>\$ 963,395</u>

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

Big Trout Condominium Association
Notes to Financial Statements
For the Year Ended December 31, 2020

1. Organization

Big Trout Condominium Association (the "Association") was incorporated on May 4, 2007 as a nonprofit corporation under the laws of Washington for the purposes of maintaining and preserving common property. The Association consists of 224 residential units and is located in Liberty Lake, 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 October 25, 2021, the date that the financial statements were available to be issued.

3. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. That basis differs from generally accepted accounting principles in that, transactions are recorded when funds are received and disbursed, instead of recognizing revenue when earned and expenses when incurred. Had these financial statements been presented using accounting principles generally accepted in the United States of America, results would have been presented differently.

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 monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. For the purposes of modified cash basis reporting, assessments receivable is not reported on the statement of assets, liabilities, and fund balances. The Association's policy is to retain legal counsel and place liens on properties of homeowners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. After the Board of Directors has exhausted all efforts to collect delinquent accounts, the Board of Directors may elect to write off uncollectible balances.

Property and Equipment

The Association capitalizes new real and personal property acquired or developed at cost and depreciates such assets over their estimated useful lives using the straight-line method of depreciation. Future major repairs and replacement costs incurred by the replacement fund are expensed in the period such expenses are incurred.

Big Trout Condominium Association
Notes to Financial Statements
For the Year Ended December 31, 2020

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.

Concentration of Credit Risk

The Association maintains bank accounts with balances that exceed FDIC federal insurance of \$250,000. The financial institution may carry private insurance, which may or may not be sufficient to reimburse for any losses. At December 31, 2020, \$100,351 was exposed to risk.

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.

Big Trout Condominium Association
Notes to Financial Statements
For the Year Ended December 31, 2020

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 conducted a reserve study to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on this study.

The Association is funding such major repairs and replacements over the estimated useful 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 estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or to levy special assessments, or it may delay major repairs and replacements until funds are available.

6. 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.

7. Accounts Receivable and Prepaid Assessments

As of December 31, 2020, the Association's owners' assessments balance of \$671,784 includes \$22,095 of assessments that were prepaid by members for the 2021 fiscal year. Under Generally Accepted Accounting Principles, such prepaid assessments would have been presented as a liability and excluded from revenues. The Association's accounting records indicate that assessments receivable as of December 31, 2020 totaled \$23,108. Assessments receivable have not been included in revenues or presented on the statement of assets, liabilities, and fund balances under the modified cash basis of accounting. Under the full accrual basis of accounting, \$23,108 of member income and accounts receivable would have been presented in these financial statements.

8. Fixed Assets

Fixed Assets consisted of the following:

Fitness equipment	\$ 4,342
Outdoor common areas	245,469
Equipment and fixtures	7,106
Accumulated Depreciation	<u>(228,405)</u>
Total	<u><u>\$ 28,512</u></u>

We were unable to obtain sufficient appropriate audit evidence regarding the existence or accuracy of fixed assets and accumulated depreciation.

Big Trout Condominium Association
Supplementary Information on Future Major Repairs and Replacements
December 31, 2020
(Unaudited)

The Association's Board of Directors, in conjunction with a reserve study expert, conducted a reserve study dated August 5, 2017 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 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 and replacement.

The following information is based on the study and presents significant information about the components of common property.

Study Component	Estimated remaining useful lives	Estimated current replacement costs
Streets and drives	4-6	\$ 281,393
Roofs	6	612,854
Painting	2-7	167,502
Lighting	1-11	28,520
Buildings	21	668,835
Fitness pool house	0-11	34,420
Fencing	11	43,578
Grounds	1-6	32,500
Pools and spas	0-11	52,921
		<u>\$ 1,922,523</u>

See the Balance Sheet for replacement fund cash, cash equivalents and investments balances at December 31, 2020.