

**Big Trout Condominium Association  
Financial Statements  
For the Year Ended December 31, 2021**



**NEWMAN**  
Certified Public Accountant, PC

**Big Trout Condominium Association  
Financial Statements  
For the Year Ended December 31, 2021**

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## Independent Auditor's Report

To the Board of Directors of Big Trout Condominium Association

### Qualified Opinion

We have audited the accompanying financial statements of Big Trout Condominium Association (the "Association") which comprise the statement of assets, liabilities and fund balance - modified cash basis as of December 31, 2021, and the related statements of revenues, expenses, and changes in fund balance - modified cash basis, for the year then ended, and the related notes to the financial statements.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section, the statement of assets, liabilities and fund balances - modified cash basis of Big Trout Condominium Association as of December 31, 2021, 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.

### Basis for Qualified Opinion

We were unable to obtain sufficient appropriate audit evidence regarding the existence or accuracy of property and equipment, accumulated depreciation with a net book balance of \$12,149 and land recorded at \$55,450.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Big Trout Condominium Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### Emphasis of Matter - Future Major Repairs and Replacements

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 5 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion is not modified with respect to that matter.

### Emphasis of 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.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or

events, considered in the aggregate, that raise substantial doubt about Big Trout Condominium Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Big Trout Condominium Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Big Trout Condominium Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### **Disclaimer of Opinion on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that supplementary information on Future Major Repairs and Replacements be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which 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 inquires 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.*

**Newman Certified Public Accountant, PC**  
Bellevue, Washington  
February 10, 2023

**Big Trout Condominium Association**  
**Statement of Assets, Liabilities and Fund Balances - Modified Cash Basis**  
**December 31, 2021**

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	Operating Fund	Replacement Fund	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 61,092	\$ 6,408	\$ 67,500
Investments		542,012	542,012
Property and equipment	256,918		256,918
Accumulated depreciation	(244,769)		(244,769)
Land	55,450		55,450
Due from (to) fund	42,603	(42,603)	-
<b>Total assets</b>	<b>\$ 171,294</b>	<b>\$ 505,817</b>	<b>\$ 677,111</b>
<b>Liabilities</b>			
<b>Total liabilities</b>	-	-	-
<b>Fund balances</b>	171,294	505,817	677,111
<b>Total liabilities and fund balances</b>	<b>\$ 171,294</b>	<b>\$ 505,817</b>	<b>\$ 677,111</b>

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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, 2021**

	Operating Fund	Replacement Fund	Total
<b>Revenues</b>			
Owners assessments	\$ 689,869	\$ -	\$ 689,869
Late fees	346		346
Interest		16,089	16,089
Other member income	3,127		3,127
<b>Total revenues</b>	<u>693,342</u>	<u>16,089</u>	<u>709,431</u>
<b>Expenses</b>			
Utilities			
Electricity and gas	23,154		23,154
Water and sewer	112,924		112,924
Trash removal	886		886
Cable	115,599		115,599
Internet	20,231		20,231
	<u>272,794</u>	<u>-</u>	<u>272,794</u>
Maintenance			
Landscape and irrigation	43,298		43,298
Common area repairs and maintenance	9,566	17,341	26,907
Pool and spa	11,316	4,982	16,298
Pest control	638		638
Street sweeping	919		919
Roof repair and maintenance		342,918	342,918
Painting		82,111	82,111
Fitness facilities	3,760		3,760
Gutters		61,270	61,270
Snow removal	11,593		11,593
	<u>81,090</u>	<u>508,622</u>	<u>589,712</u>
Administrative			
Insurance	53,322		53,322
Management	40,320		40,320
Administrative expense	3,371	1,100	4,471
Accounting services	3,750		3,750
Depreciation expense	16,365		16,365
Legal and professional	5,293		5,293
Federal taxes	9,688		9,688
	<u>132,109</u>	<u>1,100</u>	<u>133,209</u>
<b>Total expenses</b>	<u>485,993</u>	<u>509,722</u>	<u>995,715</u>
<b>Excess (deficit) of revenues over (under) expenses</b>	207,349	(493,633)	(286,284)
<b>Beginning fund balances</b>	158,345	805,050	963,395
Interfund transfers	(194,400)	194,400	-
<b>Ending fund balances</b>	<u>\$ 171,294</u>	<u>\$ 505,817</u>	<u>\$ 677,111</u>

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

**Big Trout Condominium Association**  
**Statement of Cash Flows - Modified Cash Basis**  
**For the Year Ended December 31, 2021**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>Excess of revenues over expenses</b>	\$ 207,349	\$ (493,633)	\$ (286,284)
Adjustments to reconcile excess (deficit) of revenues over (under) expenses to net cash provided (used) by operating activities			
Depreciation	16,364	-	16,364
Decrease (Increase) in operating assets:			
Increase (decrease) in operating liabilities:			
Total adjustments	<u>16,364</u>	<u>-</u>	<u>16,364</u>
Net cash provided (used) by operating activities	<u>223,713</u>	<u>(493,633)</u>	<u>(269,920)</u>
Cash provided (used) by investing activities			
Change in investments		(15,892)	(15,892)
Fixed assets	(1)		(1)
Net cash provided (used) by investing activities	<u>(1)</u>	<u>(15,892)</u>	<u>(15,893)</u>
Cash provided (used) by financing activities			
Interfund transfers	(194,400)	194,400	-
Interfund borrowings	(42,603)	42,603	-
Net cash provided (used) by financing activities	<u>(237,003)</u>	<u>237,003</u>	<u>-</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(13,291)	(272,522)	(285,813)
Beginning cash and cash equivalents	74,383	278,930	353,313
<b>Ending cash and cash equivalents</b>	<u>\$ 61,092</u>	<u>\$ 6,408</u>	<u>\$ 67,500</u>
<b>SUPPLEMENTAL DISCLOSURE</b>			
Income taxes paid			\$ -
Interest paid			\$ -



**Big Trout Condominium Association**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2021**

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**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 February 10, 2023, 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.

**Big Trout Condominium Association**  
**Notes to Financial Statements**  
**For the Year Ended December 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.

Significant real and personal property assets are capitalized and depreciated over their estimated lives using straight-line depreciation.

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.

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, 2021, \$42,012 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, 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 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, 2021, the Association's owners' assessments balance of \$412,316 includes \$30,094 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, 2021 totaled \$4,871. 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, \$4,871 of member income and accounts receivable would have been presented in these financial statements.

**8. Property and equipment**

Property and equipment consisted of the following:

Fitness equipment	\$ 4,342
Outdoor common areas	245,469
Equipment and fixtures	7,107
Accumulated Depreciation	<u>(244,769)</u>
Total	<u><u>\$ 12,149</u></u>

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

**Big Trout Condominium Association**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2021**

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**9. Due To (From) Fund**

The balance of the Due from (to) fund accounts as of December 31, 2021 totaled \$42,603. The balance comprised primarily of Replacement Fund expenses paid by the Operating Fund.

**Big Trout Condominium Association**  
**Supplementary Information on Future Major Repairs and Replacements**  
**December 31, 2021**  
**(Unaudited)**

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The Association's Board of Directors, in conjunction with a reserve study expert, conducted a reserve study dated March 24, 2022 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	2-5	\$ 314,361
Roofs	2-24	844,432
Painting	1-9	312,483
Lighting	0-5	28,980
Buildings	2-24	1,731,475
Fitness pool house	0-5	35,338
Fencing	5	78,908
Grounds	0-22	47,740
Pool and spas	0-10	56,306
		<u>\$ 3,450,023</u>
Interest rate		<u>1.50%</u>
Inflation rate		<u>3.00%</u>

See the Balance Sheet for replacement fund cash, cash equivalents and investments balances at December 31, 2021.