FAIRWOOD GREENS
HOMEOWNERS ASSOCIATION

FINANCIAL STATEMENTS
AUGUST 31, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Fairwood Greens Homeowners Association
Renton, Washington

We have audited the accompanying balance sheet of Fairwood Greens Homeowners Association as of August 31, 2011 and the related statements of revenues and expenses, homeowners' equity and cash flows for the year then ended. These financial statements are the responsibility of the Association's Board of Directors. 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 Fairwood Greens Homeowners Association as of August 31, 2011, and the 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.

The Association has not estimated the remaining lives and replacement cost of common property and, therefore, has not presented supplementary information on future repairs and replacements that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements.

Luby & Thomson

Luby & Thomson, PLLC
Certified Public Accountants

October 25, 2011

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

BALANCE SHEET
AUGUST 31, 2011

ASSETS

Cash and cash equivalents	$	380,977
Assessments receivable		114,169
Prepaid insurance		3,392
Equipment		73,339
Accumulated depreciation		(69,825)
TOTAL ASSETS	$	502,052

LIABILITIES AND HOMEOWNERS' EQUITY

LIABILITIES:		
Accounts payable	$	25,186
Unearned income		149,900
		175,086
HOMEOWNERS' EQUITY		326,966
TOTAL LIABILITIES AND HOMEOWNERS' EQUITY	$	502,052

See accountants' report and notes to financial statements.

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2011

REVENUES:	
Member assessments	$ 449,700
Penalties and fees	31,268
Interest income	1,264
TOTAL REVENUES	482,232
EXPENSES:	
ADMINISTRATIVE EXPENSES	
Security	262,086
Grounds/maintenance	92,395
Accounting/bookkeeping	24,300
Recording secretary	17,400
Utilities	4,438
FW flyer publication	9,458
Special events	17,262
Greeter	2,019
Miscellaneous	310
	429,668
PROFESSIONAL FEES	
Legal fees - counsel/advice	18,331
Insurance	6,622
Audit and tax services	3,150
	28,103
OFFICE EXPENSES	
Depreciation	5,448
Postage and supplies	5,640
Homeowner mailings	3,694
Miscellaneous	1,564
Property taxes	930
Computer software and hardware	589
	17,865
TOTAL EXPENSES	475,636
EXCESS OF REVENUES OVER EXPENSES	$ 6,596

See accountant's report and notes to financial statements.

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

STATEMENT OF HOMEOWNERS' EQUITY
FOR THE YEAR ENDED AUGUST 31, 2011

BEGINNING HOMEOWNERS' EQUITY	$ 320,370
EXCESS OF REVENUES OVER EXPENSES	6,596
ENDING HOMEOWNERS' EQUITY	$ 326,966

See accountant's report and notes to financial statements.

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Excess of revenues over expenses	$ 6,596
Depreciation expense	5,448
(Increase) decrease in assets –	
Assessments receivable	(12,653)
Prepaid insurance	(157)
Increase (decrease) in liabilities –	
Accounts payable	1,824
INCREASE IN CASH FROM OPERATING ACTIVITIES	1,058
CASH, beginning of year	379,919
CASH, end of year	$ 380,977
SUPPLEMENTAL CASH FLOW INFORMATION:	
Cash paid for federal income taxes	$ -
Cash paid for interest expense	$ -

See accountants' report and notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2011

NOTE 1. NATURE OF ORGANIZATION:

Purpose

The Fairwood Greens Homeowners Association (the Association) is organized as a non-profit, non-stock corporation in the state of Washington for the purpose of operating, maintaining, and managing the common areas of a residential real estate development for the benefit of its members.

Organization

The Association was formed primarily to govern association property. The Association is responsible for the operation, preservation and maintenance of the common areas of a residential development. The Association consists of 1,499 single-family lots located in unincorporated King County, Washington.

Common areas of the Association consist primarily of two community parks and landscaped greenbelts. Adjacent to the Association is a private golf course. Membership in the Association does not provide rights to the golf course.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet, and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Cash and Cash Equivalents

The Association considers all interest bearing deposits and highly liquid investments purchased with maturities of twelve months or less to be cash equivalents.

Assessments Receivable

Assessments receivable consist of all money due from homeowners, including fines and penalties.

NOTE 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** (*continued*)

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 the individual unit owners in common and not by the Association.

The Association capitalizes equipment at cost and depreciates it using the straight-line method over its estimated useful life. Current capitalized equipment consists of park equipment, shed and irrigation system.

Unearned Income

The Association recognizes the liability to its homeowners for assessment revenue billed in advance. At each year end, four months of member assessments are prebilled. As of August 31, 2011, unearned income of $149,900 is recognized.

Member Assessments

Association members are subject to semi-annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and maintenance of the common areas. Any excess assessments at year-end are retained by the Association for use in future years.

Federal Income Taxes

The Association has the option of filing its Federal Income Tax Return on Form 1120 under the provisions contained in Subchapter C of the Internal Revenue Code (IRC), or on Form 1120-H as a homeowners' association defined under IRC Section 528. Under IRC Section 528, exempt function net income such as membership fees and dues are exempt from income tax. All other sources of income (activities income) are taxed at a flat rate of 30%. For the current year, the Association filed Form 1120-H following the provisions contained in IRC Section 528. There is no income tax due.

The Association has determined there are no uncertain tax positions for the year ended August 31, 2011, and the accompanying financial statements contain no interest or penalties with respect to federal income taxes.

The Company's federal income tax returns remain open for examination to the extent prescribed by the Internal Revenue Code.

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2011

NOTE 3. ALLOWANCE FOR UNCOLLECTABLE ASSESSMENTS RECEIVABLE

It is the opinion of the Board of Directors that the Association will collect all past due assessments, therefore no allowance for uncollectible has been established. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are in arrears.

As of August 31, 2011, receivables of approximately $107,244 have a lien on the property which is 94% of the total receivable balance. During the year ended August 31, 2011, $5,115 was written off as uncollectible.

As of August 31, 2011, approximately $77,543 of the Assessments Receivable is penalties and fines and $84,793 was over 90 days due.

NOTE 4. CONCENTRATIONS

Cash balances at August 31, 2011 did not exceed federally insured limits.

The accounts receivable balance of $114,169 at August 31, 2011 is comprised of balances due from 134 homeowners. Three homeowners are responsible for 58% of this balance.

NOTE 5. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association has not conducted a study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. The Association has not developed a plan to fund those needs, and when replacement funds are needed to meet future needs for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.

NOTE 6. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through the date these financial statements were available to be issued on October 25, 2011.