

**DAYBREAK AT ISSAQUAH RIDGE OWNERS' ASSOCIATION  
A.K.A. DAYBREAK AT ISSAQUAH RIDGE CONDOMINIUM ASSOCIATION**

**INDEPENDENT AUDITOR'S REPORT**

**AND**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE**

**YEAR ENDED DECEMBER 31, 2016**

**AND**

**UNAUDITED SUPPLEMENTARY INFORMATION**

**DAYBREAK AT ISSAQUAH RIDGE OWNERS' ASSOCIATION  
A.K.A. DAYBREAK AT ISSAQUAH RIDGE CONDOMINIUM ASSOCIATION**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors and Members  
Daybreak at Issaquah Ridge Owners' Association  
a.k.a. Daybreak at Issaquah Ridge Condominium Association

We have audited the accompanying financial statements of Daybreak at Issaquah Ridge Owners' Association a.k.a. Daybreak at Issaquah Ridge Condominium Association, which comprise the balance sheet as of December 31, 2016, 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 Daybreak at Issaquah Ridge Owners' Association a.k.a. Daybreak at Issaquah Ridge Condominium Association as of December 31, 2016, 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 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 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

 - CPA PS  
February 14, 2017

**DAYBREAK AT ISSAQUAH RIDGE OWNERS' ASSOCIATION**  
**a.k.a. DAYBREAK AT ISSAQUAH RIDGE CONDOMINIUM ASSOCIATION**  
**BALANCE SHEET**  
**December 31, 2016**

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
<b><u>ASSETS</u></b>			
Cash-Checking	\$ 30,477	\$ -	\$ 30,477
Cash-Maintenance Reserve	-	72,914	72,914
Assessments Receivable	23,859	-	23,859
Allowance for Doubtful			
Accounts	(19,318)	-	(19,318)
Prepaid Insurance	15,718	-	15,718
Prepaid Expenses	4,920	-	4,920
Total Assets	<u>\$ 55,656</u>	<u>\$ 72,914</u>	<u>\$ 128,570</u>
 <b><u>LIABILITIES AND FUND BALANCE</u></b>			
Accounts Payable	\$ 25,583	\$ 15,000	\$ 40,583
Prepaid Assessments	11,806	-	11,806
Total Liabilities	37,389	15,000	52,389
Fund Balance	<u>18,267</u>	<u>57,914</u>	<u>76,181</u>
Total Liabilities & Fund Balance	<u>\$ 55,656</u>	<u>\$ 72,914</u>	<u>\$ 128,570</u>

**DAYBREAK AT ISSAQUAH RIDGE OWNERS' ASSOCIATION**  
**a.k.a. DAYBREAK AT ISSAQUAH RIDGE CONDOMINIUM ASSOCIATION**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND BALANCE**  
**For the Year Ended December 31, 2016**

	OPERATING FUND	REPLACEMENT RESERVE FUND	TOTAL
<b>REVENUES</b>			
Assessments	\$ 253,106	\$ 79,000	\$ 332,106
Insurance Proceeds	-	62,316	62,316
Late Fee	750	-	750
Bad Debt Recovery	4,471	-	4,471
Other	2,800	-	2,800
Interest	-	499	499
<b>TOTAL REVENUE</b>	<b>261,127</b>	<b>141,815</b>	<b>402,942</b>
<b>EXPENSES</b>			
Management Fee	22,912	-	22,912
Professional Services	2,966	-	2,966
Administration	6,727	-	6,727
Insurance	55,413	-	55,413
Repairs and Maintenance	76,178	-	76,178
Landscaping	25,970	-	25,970
Electricity	112,670	-	112,670
Licenses and Permits	10	-	10
Major Repairs & Replacements	-	165,932	165,932
<b>TOTAL EXPENSES</b>	<b>302,846</b>	<b>165,932</b>	<b>468,778</b>
<b>REVENUES OVER/(UNDER) EXPENSES</b>	<b>(41,719)</b>	<b>(24,117)</b>	<b>(65,836)</b>
<b>UNADJUSTED BEGINNING FUND BALANCE</b>	<b>13,165</b>	<b>128,852</b>	<b>142,017</b>
Transfer to (from)	46,821	(46,821)	-
<b>ENDING BALANCE</b>	<b>\$ 18,267</b>	<b>\$ 57,914</b>	<b>\$ 76,181</b>

**DAYBREAK AT ISSAQUAH RIDGE OWNERS' ASSOCIATION**  
**a.k.a. DAYBREAK AT ISSAQUAH RIDGE CONDOMINIUM ASSOCIATION**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2016**

	<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	\$ (41,719)	\$ (24,117)	\$ (65,836)
Adjustments to reconcile excess of expenses over revenues to net cash provided by activities:			
(Increase) Decrease in:			
Assessments Receivable	(1,869)	-	(1,869)
Prepaid Insurance	8,967	-	8,967
Other Prepaid Expenses	(4,920)	-	(4,920)
Increase (Decrease) in:			
Account Payable	19,766	15,000	34,766
Prepaid Assessments	(110)	-	(110)
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>(19,885)</u>	<u>(9,117)</u>	<u>(29,002)</u>
<u>CASH FLOWS FROM</u>			
<u>FINANCING ACTIVITIES</u>			
Interfund transfers	46,821	(46,821)	-
<u>NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES</u>	<u>46,821</u>	<u>(46,821)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH & EQUIVALENTS	26,936	(55,938)	(29,002)
CASH & EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>3,541</u>	<u>128,852</u>	<u>132,393</u>
CASH & EQUIVALENTS AT END OF THE PERIOD	<u>\$ 30,477</u>	<u>\$ 72,914</u>	<u>\$ 103,391</u>

**DAYBREAK AT ISSAQUAH RIDGE OWNERS' ASSOCIATION  
A.K.A. DAYBREAK AT ISSAQUAH RIDGE CONDOMINIUM ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016**

**NOTE A – NATURE OF ORGANIZATION**

Daybreak at Issaquah Ridge Owners' Association a.k.a. Daybreak at Issaquah Ridge Condominium Association is a statutory condominium association in the State of Washington organized and incorporated in 2001. The Association is responsible for the operation and maintenance of the common property of Daybreak at Issaquah Ridge Owners' Association a.k.a. Daybreak at Issaquah Ridge Condominium Association. Daybreak at Issaquah Ridge Owners' Association a.k.a. Daybreak at Issaquah Ridge Condominium Association consists of 90 residential units located in Issaquah, Washington.

**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 February 14, 2017, 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.

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.



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NOTES TO FINANCIAL STATEMENTS  
December 31, 2016**

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

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. At December 31, 2016, the Association had assessments delinquent 90 days or more of approximately \$19,318.

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.

**NOTE D-COMMITMENTS**

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

**DAYBREAK AT ISSAQUAH RIDGE OWNERS' ASSOCIATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE E-INCOME TAXES**

Condominium associations may be taxed either as homeowners' associations or as regular corporations. In 2016, 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, 2016, the tax years that remain subject to examination by taxing authorities begin with 2013.

**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 \$57,914 at December 31, 2016, 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 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.

**DAYBREAK AT ISSAQUAH RIDGE OWNERS' ASSOCIATION  
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NOTES TO FINANCIAL STATEMENTS  
December 31, 2016**

**NOTE G-ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at December 31, 2016:

	<u>Operating Fund</u>
Assessments	\$ 23,859
Allowance for Doubtful Accounts	<u>(19,318)</u>
	<u>\$ 4,541</u>

Bad debt recovered for the year ended December 31, 2016 was \$4,471.

**NOTE H-SEWAGE TREATMENT CAPACITY CHARGE**

The Association is paying a sewage treatment capacity charge to King County under the Revised Code of Washington, Chapter 35.58 and King County Code 28.84.050. As of December 31, 2016 the Association owed a remaining six year balance of approximately \$11,445. The Association is currently paying \$3,629 every six months to King County for this fee.

**SUPPLEMENTARY INFORMATION**

**DAYBREAK AT ISSAQUAH RIDGE OWNERS' ASSOCIATION  
A.K.A. DAYBREAK AT ISSAQUAH RIDGE CONDOMINIUM ASSOCIATION  
UNAUDITED SUPPLEMENTARY INFORMATION ON  
FUTURE MAJOR REPAIRS AND REPLACEMENTS  
December 31, 2016**

A specialist conducted a study 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 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

**REVIEW OF GENERAL CONDITIONS**

The overall appearance of the building is very good. The asphalt paving was repaired and seal coated in 2011. The exterior vinyl siding is in good condition. The paint on the trim is weathering as expected. Repaired and recoated in 2013, the exterior decks and unit entry balconies appear to be in great condition. There were no issues reported with the asphalt shingle roofs. Replacing the windows is the responsibility of the unit owner. The windows are original to the building. No issues were reported with the plumbing or drainage. The grounds and landscaping appear to be regularly maintained. Minor and major repairs have been conducted on a regular basis.

**MAJOR EXPENSES OVER THE NEXT 30 YEARS:**

<b>COMPONENT – REPAIR TO BE MADE:</b>	<b>NEXT IN YEAR:</b>	<b>ESTIMATED COST:</b>
7.4.1 - Roof, Replace	17 (2030)	\$349,636
6.1.2 - Decks, Repair	18 (2031)	\$304,638
6.1.2 - Decks, Re-Coat	6 (2019)	\$143,470
6.2.2 - Siding, Repair	10 (2023)	\$44,495
7.4.1 - Roof, Repair	7 (2020)	\$35,151
16.6.1 - Exterior Lighting	7 (2020)	\$29,089

**COMPONENTS EXCLUDED FROM THE RESERVE STUDY:**

The following components qualify for inclusion within the Reserve Study, but have been excluded for the following reasons:

- 2.9.1 Landscaping** – Maintained through operating budget.
- 5.4.1 Rails, Aluminum** – Expected to last longer than the 30-year reserve timeline.
- 8.2.1 Doors** – Expected to last longer than the 30-year reserve timeline.
- 8.5.1 Windows** - Unit Owner Responsibility.
- 10.1.1 Carports** - Expected to last longer than the 30-year reserve timeline.
- 15.4.2 Storm Water System** - Maintained through operating budget.
- 16.3.1 Electrical** - Expected to last longer than the 30-year reserve timeline.

