

**Bluegrass Owners Association
Financial Statements
For the Year Ended December 31, 2020**



NEWMAN
Certified Public Accountant, PC

**Bluegrass Owners Association
Financial Statements
For the Year Ended December 31, 2020**

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Independent Auditor's Report

To the Board of Directors of Bluegrass Owners Association

We have audited the accompanying financial statements of Bluegrass Owners Association (the "Association") which comprise the balance sheet as of December 31, 2020, 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 conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis of Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis For Disclaimer of Opinion

We were unable to obtain sufficient appropriate audit evidence to support the existence and accuracy of operating expenses, cable TV income with a general ledger balance totaling \$10,705, and mortgage payable with a general ledger balance totaling \$81,334.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

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.

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.

Newman Certified Public Accountant, PC

Bellevue, Washington

November 18, 2021

Bluegrass Owners Association
Balance Sheet
December 31, 2020

	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalents	\$ 108,392	\$ 1,228,433	\$ 1,336,825
Assessments receivable	35,970		35,970
Allowance for doubtful accounts	(30,917)		(30,917)
Prepaid insurance	44,851		44,851
Prepaid expenses	557		557
Fixed assets	211,819		211,819
Accumulated depreciation	(101,433)		(101,433)
Due from (to) fund	(259,645)	259,645	-
Total assets	\$ 9,594	\$ 1,488,078	\$ 1,497,672
Liabilities			
Accounts payable	\$ 23,981	\$ -	\$ 23,981
Prepaid assessments	36,766		36,766
Income taxes payable	7,367		7,367
Mortgage payable	81,334		81,334
Deposits	2,629		2,629
Contract liabilities (Assessments received in advance - replacement fund)		1,484,763	1,484,763
Total liabilities	152,077	1,484,763	1,636,840
Fund balances	(142,483)	3,315	(139,168)
Total liabilities and fund balances	\$ 9,594	\$ 1,488,078	\$ 1,497,672

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

Bluegrass Owners Association
Statement of Revenues, Expenses and Changes in Fund Balances
For the Year Ended December 31, 2020

	Operating Fund	Replacement Fund	Total
Revenues			
Owners assessments	\$ 469,998	\$ -	\$ 469,998
Rental income	35,700		35,700
Water and sewer income	119,833		119,833
Cable revenue	10,705		10,705
Late fees	150		150
Collection charges	12,361		12,361
Interest	101	3,315	3,416
Other member income	3,286		3,286
Total revenues	<u>652,134</u>	<u>3,315</u>	<u>655,449</u>
Expenses			
Utilities			
Electricity and gas	11,279		11,279
Water and sewer	171,893		171,893
Trash removal	26,249		26,249
Telephone and cable	5,665		5,665
	<u>215,086</u>	<u>-</u>	<u>215,086</u>
Maintenance			
Landscape and irrigation	92,897		92,897
Common area repairs and maintenance	30,782		30,782
Plumbing	1,988		1,988
Pest control	1,448		1,448
Life safety	12,351		12,351
Parking	2,893		2,893
Uninsured expenses	265		265
	<u>142,624</u>	<u>-</u>	<u>142,624</u>
Administrative			
Insurance	125,262		125,262
Management	69,872		69,872
Administrative expense	7,463		7,463
Depreciation expense	7,703		7,703
Payroll and related expenses	94,473		94,473
Legal and professional	11,285		11,285
Collection costs	13,177		13,177
Licenses, permits, fees and taxes	1,245		1,245
Real estate taxes	6,303		6,303
Income tax expense	7,367		7,367
Bad debt expense	732		732
Owned unit expenses	12,836		12,836
	<u>357,718</u>	<u>-</u>	<u>357,718</u>
Total expenses	<u>715,428</u>	<u>-</u>	<u>715,428</u>
Excess (deficit) of revenues over (under) expenses	(63,294)	3,315	(59,979)
Beginning fund balances	(79,189)	-	(79,189)
Ending fund balances	<u>\$ (142,483)</u>	<u>\$ 3,315</u>	<u>\$ (139,168)</u>

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

Bluegrass Owners Association
Statement of Cash Flows
For the Year Ended December 31, 2020

	Operating Fund	Replacement Fund	Total
Excess of revenues over expenses	\$ (63,294)	\$ 3,315	\$ (59,979)
Adjustments to reconcile excess (deficit) of revenues over (under) expenses to net cash provided (used) by operating activities			
Depreciation	7,703	-	7,703
Decrease (Increase) in operating assets:			
Assessments receivable	1,783		1,783
Allowance for doubtful accounts	733		733
Prepaid insurance	(20,878)		(20,878)
Prepaid expenses	(557)		(557)
Increase (decrease) in operating liabilities:			
Accounts payable	14,506		14,506
Prepaid assessments	(1,251)		(1,251)
Deposits	864		864
Income taxes payable	(560)		(560)
Contract liabilities (Assessments received in advance - replacement fund)		217,209	217,209
Total adjustments	2,343	217,209	219,552
Net cash provided (used) by operating activities	(60,951)	220,524	159,573
Cash provided (used) by investing activities			
Net cash provided (used) by investing activities	-	-	-
Cash provided (used) by financing activities			
Interfund borrowings	140,694	(140,694)	-
Mortgage payable	(10,979)		(10,979)
Net cash provided (used) by financing activities	129,715	(140,694)	(10,979)
Net increase (decrease) in cash and cash equivalents	68,764	79,830	148,594
Beginning cash and cash equivalents	39,628	1,148,603	1,188,231
Ending cash and cash equivalents	<u>\$ 108,392</u>	<u>\$ 1,228,433</u>	<u>\$ 1,336,825</u>
SUPPLEMENTAL DISCLOSURE			
Income taxes paid			\$ -
Interest paid			\$ -

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

Bluegrass Owners Association
Notes to Financial Statements
For the Year Ended December 31, 2020

1. Organization

Bluegrass Owners Association (the "Association") was incorporated on March 22, 2006 as a nonprofit corporation under the laws of Washington for the purposes of maintaining and preserving common property. The Association consists of 221 residential units and is located in Everett, 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 November 18, 2021, the date that the financial statements were available to be issued.

3. Summary of Significant Accounting Policies

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. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on properties of owners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The balances of assessments receivable as of the beginning and end of the year are \$37,753 and \$35,970, respectively. After the Board of Directors has exhausted all efforts to collect delinquent accounts, the Board of Directors may elect to write off uncollectible balances.

The Association recorded an allowance for doubtful accounts of \$30,917 to reflect an estimate of accounts that may not be collectible.

Bluegrass Owners Association
Notes to Financial Statements
For the Year Ended December 31, 2020

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.

Contract Liabilities (Assessments received in advance - replacement fund)

The Association recognizes replacement fund (reserves) revenue from members as related performance obligations are satisfied. A contract liability (assessments received in advance - replacement fund) is recorded when the Association has the right to receive payment in advance of satisfaction of performance obligations related to replacement reserve assessments. The balances of Contract Liabilities (assessments received in advance - replacement fund) as of the beginning and end of the year are \$1,267,554 and \$1,484,763, respectively.

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.

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.

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

Bluegrass Owners Association
Notes to Financial Statements
For the Year Ended December 31, 2020

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. FASB ASC 606 New Accounting Guidance Implementation

The Financial Accounting Standards Board (FASB) issued ASC 606 guidance, Revenue from Contracts with Customers, effective January 1, 2019, which superseded the revenue recognition requirements in FASB ASC 972-605, Real Estate - Common Interest Realty Associations (CIRA), Revenue Recognition. The Association has presented the attached financial statements in accordance with FASB ASC 606. Assessments attributed to the Operating Fund are recognized in the period earned. Assessments allocated to the Replacement Fund are recognized as revenue only when there are replacement fund expenditures, and to the extent the replacement fund expenditures exceed replacement fund interest income.

The cumulative balance of Replacement Fund assessments that have not been recognized as income are accumulated as deferred replacement fund assessments and presented as Contract Liabilities (Assessments received in advance - Replacement fund) on the Balance Sheet. Deferred replacement fund assessments are increased by unrecognized replacement fund assessments and decreased as replacement fund assessments are recognized as revenue in the Statement of Revenue and Expenses and Changes in Fund Balances.

Contract liabilities (Assessments received - in advance - replacement fund) as of January 1, 2020	\$1,267,554
Assessments budgeted for Replacement Fund	\$217,209
Recognized Replacement Fund assessments	\$0
Adjustment and transfer to/from contract liabilities	\$0
Contract liabilities (Assessments received - in advance - replacement fund) as of December 31, 2020	<u>\$1,484,763</u>

Bluegrass Owners Association
Notes to Financial Statements
For the Year Ended December 31, 2020

7. 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.

8. Mortgage Payable

The Association purchased a unit within the complex on February 8, 2007. The purchase price was \$190,000 and there were closing costs of \$2,419. The purchase was financed with a bank loan. The interest rate was 7.84% and the monthly payments were \$1,583. The loan matures in February 2027.

9. Sheriff and Trustee Sales of Residential Units

The Association obtained a unit at a Sheriff's Sale in May 2011. No value has been assigned to the unit nor has the unit been included in the assets of the Association. The unit has been a rental since then. A second unit was obtained by a Trustee Sale in February 2017 and immediately rented out. No value has been assigned to the unit nor has the unit been included in the assets of the Association.

10. Due From (To) Fund

The balance of the Due from (to) fund accounts at December 31, 2020 totaled \$259,645. The balance consisted primarily of unpaid monthly budgeted Replacement Fund contributions from the Operating Fund.

11. Operating Fund Deficit

As of December 31, 2020, the Association recorded an Operating Fund deficit totaling \$142,483, caused by the cumulative effect of operating expenses in excess of operating revenues. Remedies available to the Association include, but are not limited to increasing assessments, decreasing operating expenses, decreasing funding to the Replacement Fund and levying a special assessment.

12. Legal

The Association has engaged legal counsel to review various matters and advise the Board of Directors. As of the date of this report, outcomes have not been determined and any gain or loss contingencies are not estimable, thus amounts have not been accrued in the accompanying financial statements.

Bluegrass Owners 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 June 12, 2018 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
Special projects	0-3	\$ 213,850
Site and grounds	1-35	410,700
Recreation and clubhouse	0-22	191,650
Building	0-27	4,120,950
Systems	5-16	69,050
		<u>\$ 5,006,200</u>
Interest rate		<u>1.00%</u>
Inflation rate		<u>3.00%</u>

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