

SNOHOMISH CASCADE HOMEOWNERS ASSOCIATION  
FOOTNOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2013

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Income Taxes

Homeowner associations may be taxed either as a homeowner association or as a regular corporation. For the year ended December 31, 2013, the Association was taxed as a homeowner association and filed Form 1120H. As a homeowner association, membership income is exempt from taxation, and the Association is taxed only on its non-membership income, such as interest earnings.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal income tax returns are subject to examination by the Internal Revenue Service, generally three years after they were filed.

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 homeowners in common and not by the Association.

Replacements and improvements to the real property and common areas also belong to the owners and are not capitalized by the Association.

Concentration of Credit Risk

The Association has one main source of revenue which consists of membership dues from the homeowners. Assessments may be secured by a lien on members' houses.

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NOTE 3: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$84,000 at December 31, 2013, are held in a separate account and are not generally available for operating purposes.

The Association's property manager conducted a study in 2012 to estimate the remaining useful lives and the replacement costs of the common property components. The table included in the unaudited Supplementary Information on Future Repairs and Replacements is based on that study.

The Association is funding major repairs and replacements of common property components over the estimated useful lives of the components based on the study's estimates of replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacements fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, however, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

NOTE 4: SUBSEQUENT EVENTS

The Board of Directors is in the process of revising the major repairs and replacements reserve study in 2014.

*Management has evaluated subsequent events through September 24, 2014, the date on which the financial statements were available for issue.*