

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
The Buttes Homeowners' Association

We have audited the accompanying statements of assets and fund balance – cash basis of The Buttes Homeowners' Association as of December 31, 2010 and 2009, and the related statements of revenues, expenses, and changes in fund balance – cash basis for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide 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 The Buttes Homeowners' Association as of December 31, 2010 and 2009, and the results of its operations for the years then ended in conformity with the cash basis of accounting, as described in Note 2.

The Association has omitted the schedule of estimated remaining lives and replacement costs of common property that are required to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

Brantley Jansen Yost & Ellison

January 12, 2012

THE BUTTES HOMEOWNERS' ASSOCIATION

STATEMENTS OF ASSETS AND FUND BALANCE - CASH BASIS
DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
	ASSETS	
CASH	\$ <u>12,809</u>	\$ <u>14,273</u>
	FUND BALANCE	
OPERATING FUND BALANCE	\$ <u>12,809</u>	\$ <u>14,273</u>

The accompanying notes are an integral part of these financial statements.

THE BUTTES HOMEOWNERS' ASSOCIATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE - CASH BASIS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
REVENUES		
Assessments	\$ 102,720	\$ 110,394
Violation, legal and other fees	269	258
Tax exempt interest	142	380
	<u>103,131</u>	<u>111,032</u>
Total revenues		
	<u>103,131</u>	<u>111,032</u>
EXPENSES		
Management fees	16,887	15,729
Property taxes	570	507
Insurance	4,719	4,355
Legal services	4,090	11,110
Utilities	8,023	7,561
Communications	1,987	1,756
Professional services	488	
Grounds maintenance	45,961	65,475
Gate maintenance	1,121	
General repairs and maintenance	248	8,492
Storm sewer cleaning		4,053
Garbage, water, sewer	2,250	2,557
Signage	5,108	1,867
Security patrol	480	1,400
Major improvements	8,394	
Accounting services	100	100
Miscellaneous	4,169	871
	<u>104,595</u>	<u>125,833</u>
Total expenses		
	<u>104,595</u>	<u>125,833</u>
CHANGE IN FUND BALANCE	(1,464)	(14,801)
BEGINNING FUND BALANCE	<u>14,273</u>	<u>29,074</u>
ENDING FUND BALANCE	<u>\$ 12,809</u>	<u>\$ 14,273</u>

The accompanying notes are an integral part of these financial statements.

THE BUTTES HOMEOWNERS' ASSOCIATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 1 - NATURE OF ORGANIZATION

The Buttes Homeowners' Association (the Association) is a statutory homeowners' association organized and incorporated in 2002 in the State of Washington. The Association is responsible for the operation and maintenance of the common property of The Buttes Homeowners' Association. The Buttes Homeowners' Association consists of 345 residential lots located in Buckley, Washington.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the cash receipts and disbursements 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 assessments are recognized when received instead of when assessed and payments to vendors are recognized when paid instead of when goods or services are received.

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, and to account for construction defect proceeds, insurance proceeds, expenditures for construction defect or insurance repairs, and litigation costs relating to the aforementioned proceeds. There were no assets in the replacement fund at December 31, 2010 and 2009.

Use of Estimates

The preparation of financial statements in conformity with the cash receipts and disbursements basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

THE BUTTES HOMEOWNERS' ASSOCIATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

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 members in common and not by the Association. All expenditures for real property common areas and improvements are reflected as an expense in the reporting period incurred.

Member Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Any excess assessments at year end are retained by the Association for use in succeeding years. If assessments are inadequate, the Board of Directors, subject to the limitations of their authority described in the Association's governing documents, may increase regular assessments or levy special assessments.

Income Tax

In 2010 and 2009, the Association elected to be taxed as a homeowners' association. Pursuant to 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.

The Association follows accounting principles generally accepted in the United States of America, which address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. The Association may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent (50%) likelihood of being realized upon ultimate settlement. Generally accepted accounting principles also provide guidance on derecognition, classification, interest and penalties on income tax, and require increased disclosures. For 2010 and 2009, the Association had no material adjustments to its assets or liabilities for unrecognized income tax benefits.

THE BUTTES HOMEOWNERS' ASSOCIATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Management has evaluated subsequent events through January 12, 2012, the date these financial statements were available to be issued.

NOTE 3 - CASH

The Association maintains certain cash balances in financial institutions insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2010 and 2009, the Association had no balances at risk.

NOTE 4 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are to be held in separate accounts and are generally not available for operating purposes. There were no replacement reserves at December 31, 2010 and 2009.

The Association has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented information on future major repairs and replacements.