

WESTPORT BY THE SEA, PHASE III CONDOMINIUM ASSOCIATION

INDEPENDENT AUDITOR'S REPORT

AND

AUDITED FINANCIAL STATEMENTS

FOR THE

YEAR ENDED DECEMBER 31, 2009

AND

UNAUDITED SUPPLEMENTARY INFORMATION

ABOUT

FUTURE MAJOR REPAIRS AND REPLACEMENTS

Received

JUL 19 2010

**Hometown Association
Management, Inc.**

WESTPORT BY THE SEA, PHASE III CONDOMINIUM ASSOCIATION

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Joseph H. Vandal, CPA, PS

Member of American Institute of CPAs, Washington Society of CPAs
A Professional Service Corporation

INDEPENDENT AUDITOR'S REPORT

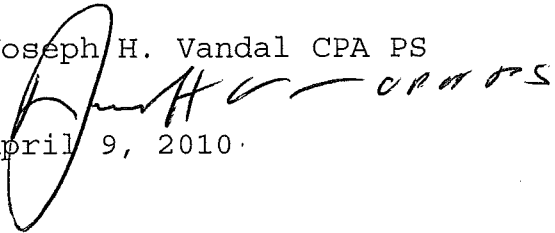
To the Board of Directors and Members
Westport By the Sea, Phase III Condominium Association

We have audited the accompanying balance sheet of Westport By the Sea, Phase III Condominium Association for the year ended December 31, 2009, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Association's management and 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 Westport By the Sea, Phase III Condominium Association for the year ended December 31, 2009 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.

Joseph H. Vandal CPA PS


April 9, 2010

WESTPORT BY THE SEA, PHASE III CONDOMINIUM ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2009

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash Checking	\$ 13,986	\$ 0	\$ 13,986
Cash Reserves	0	129,246	129,246
Accounts Receivable	60,673	0	60,673
Allowance for Doubtful Accounts	(50,228)	0	(50,228)
Prepaid Insurance	<u>14,511</u>	<u>0</u>	<u>14,511</u>
Total Assets	<u>\$ 38,942</u>	<u>\$129,246</u>	<u>\$168,188</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
Accounts Payable	\$ 15,530	\$ 0	\$ 15,530
Prepaid Assessments	<u>6,950</u>	<u>0</u>	<u>6,950</u>
Total Liabilities	22,480	0	22,480
Fund Balance	<u>16,462</u>	<u>129,246</u>	<u>145,708</u>
Total Liabilities & Fund Balance	<u>\$ 38,942</u>	<u>\$129,246</u>	<u>\$168,188</u>

**WESTPORT BY THE SEA, PHASE III CONDOMINIUM ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2009**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
REVENUE			
Assessments-Dues	\$458,001	\$ 72,000	\$530,001
Collection Charges	24,785	0	24,785
Other Income	17,416	0	17,416
Water & Sewer	84,912	0	84,912
Interest	<u>0</u>	<u>3,989</u>	<u>3,989</u>
TOTAL REVENUE	585,114	75,989	661,103
EXPENSES			
Management Fee	31,321	0	31,321
Administration	7,570	0	7,570
Professional	54,128	0	54,128
Insurance	54,520	0	54,520
Bad Debt	54,713	0	54,713
Permits & Licenses	1,857	0	1,857
Maintenance Building	55,414	0	55,414
Maintenance Landscape	130,920	0	130,920
Elevator	27,670	0	27,670
Clubhouse Expense	5,008	0	5,008
Security	2,255	0	2,255
Electricity	13,310	0	13,310
Water & Sewer	84,307	0	84,307
Garbage	15,569	0	15,569
TV Cable	50,023	0	50,023
Natural Gas	33,169	0	33,169
Real Estate Taxes	5,020	0	5,020
Pest Control	11,507	0	11,507
Miscellaneous	3,223	0	3,223
Major Repairs & Replacements	<u>0</u>	<u>35,483</u>	<u>35,483</u>
TOTAL EXPENSES	<u>641,504</u>	<u>35,483</u>	<u>676,987</u>
REVENUE OVER/(UNDER) EXPENSES	(56,390)	40,506	(15,884)
BEGINNING FUND BALANCE	76,045	85,547	161,592
Transfer to/(from)	<u>(3,193)</u>	<u>3,193</u>	<u>0</u>
ENDING FUND BALANCE	<u>\$ 16,462</u>	<u>\$129,246</u>	<u>\$145,708</u>

See Independent Auditor's Report and Notes to Financial Statements
Page 3

WESTPORT BY THE SEA, PHASE III CONDOMINIUM ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2009

	<u>OPERATING</u> <u>FUND</u>	<u>REPLACEMENT</u> <u>FUND</u>	<u>TOTAL</u>
CASH FLOWS FROM			
OPERATING ACTIVITIES			
REVENUE IN EXCESS OF EXPS	\$(56,390)	\$ 40,506	\$(15,884)
Adjustments to reconcile excess of expenses over revenues to net cash provided by activities:			
(Increase) Decrease in:			
Assessments Receivable, Net	24,389	0	24,389
Developer Receivable	33,515	0	33,515
Prepaid Insurance	12,472	0	12,472
Increase (Decrease) in:			
Accounts Payable	(5,573)	0	(5,573)
Prepaid Assessments	<u>(22,751)</u>	<u>0</u>	<u>(22,751)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>(14,338)</u>	<u>40,506</u>	<u>26,168</u>
CASH FLOWS FROM			
FINANCING ACTIVITIES			
Interfund transfers	<u>(3,193)</u>	<u>3,193</u>	<u>0</u>
NET CASH (USED)/PROVIDED BY FINANCING ACTIVITIES	<u>(3,193)</u>	<u>3,193</u>	<u>0</u>
NET INCREASE/(DECREASE) IN CASH & EQUIVALENTS	(17,531)	43,699	26,168
CASH & EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>31,517</u>	<u>85,547</u>	<u>117,064</u>
CASH & EQUIVALENTS AT END OF THE PERIOD	<u>\$ 13,986</u>	<u>\$129,246</u>	<u>\$143,232</u>

WESTPORT BY THE SEA, PHASE III CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1-NATURE OF ORGANIZATION

Westport By the Sea, Phase III Condominium Association is a statutory condominium association in the State of Washington organized and incorporated in 2000. The Association is responsible for the operation and maintenance of the common property of Westport By the Sea, Phase III Condominium Association. Westport By the Sea, Phase III Condominium Association consists of 48 residential units located in Grays Harbor, Washington.

NOTE 2-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, and to account for construction defect proceeds (if any), insurance proceeds (if any), expenditures for construction defect or insurance repairs (if any), and litigation costs (if any) relating to the for mentioned proceeds.

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 units 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 Associations governing documents, may have to increase regular assessments or pass special assessments.

See Independent Auditor's Report

WESTPORT BY THE SEA, PHASE III CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Income Taxes

Condominium associations may be taxed either as homeowners' associations or as regular corporations. In 2009, 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.

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. If applicable, the Association capitalizes personal property at cost and depreciates it using the straight-line method. All expenditures for real property common elements and improvements are reflected as an expense in the reporting period incurred.

Cash and Cash Equivalents

The Association considers cash on deposit, cash on hand, money market funds (if any) and certificates of deposits (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.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management and 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 revenues and expenses during the reporting period. Actual results could differ from those estimated.

See Independent Auditor's Report

**WESTPORT BY THE SEA, PHASE III CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 3 - COMMITMENTS

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

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 (assets less liabilities as reported on the balance sheet), which in aggregate are approximately \$129,246 at December 31, 2009, are generally not available for operating purposes. Cash balances that are shown on the balance sheet that are part of these funds are held in separate bank accounts.

The Association engaged an independent engineering firm who conducted a study in 2007 with an update in 2009 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is partially funding for such future 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 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 Board of Directors of the Association has the right, subject to limitations of their authority as 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.

Joseph H. Vandal, CPA, PS

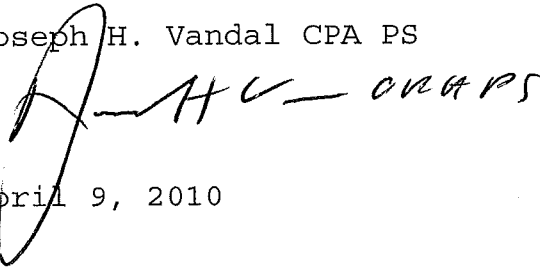
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**INDEPENDENT AUDITOR'S REPORT ON
UNAUDITED SUPPLEMENTARY INFORMATION**

To the Board of Directors and Members
Westport By the Sea, Phase III Condominium Association

The supplementary information on future major repairs and replacements on pages 9-10 is not a required part of the basic financial statement of Westport by the Sea, Phase III Condominium Association but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Joseph H. Vandal CPA PS

A handwritten signature in black ink, appearing to read "JHV CPA PS", written over a large, stylized circular scribble.

April 9, 2010

WESTPORT BY THE SEA, PHASE III CONDOMINIUM ASSOCIATION
UNAUDITED SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2009

An independent engineering firm conducted a study in 2007 with an update in 2009 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 effect of inflation between the date of the study and the date that the components will require repair or replacement.

The following information is based on the study and presents 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 10

See Independent Auditor's report on Unaudited Supplementary Information on page 8.

Table 1: Executive Summary

15450-2

# Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Average Cost	Future Average Cost
109 Elevated Decks - Repair/Replace	20	14	\$237,600	\$359,391
201 Asphalt - Resurface	25	19	\$172,880	\$303,146
202 Asphalt - Seal/Repair	5	0	\$22,230	\$25,771
320 Pole Lights - Replace	12	10	\$9,000	\$12,095
404 Patio Furniture - Replace	8	3	\$5,000	\$5,464
405 Play Equipment - Replace	12	7	\$11,250	\$13,836
407 Built-in Gas Bbq - Replace	7	2	\$2,625	\$2,785
502 Chain Link Fence - Replace	20	15	\$2,530	\$3,942
505 Phase III Wood Fence - Replace	15	9	\$33,750	\$44,036
506 Common Wood Fence/Trellis - Replace	15	9	\$14,485	\$18,900
803 Water Heaters - Replace	15	10	\$31,500	\$42,333
804 Chillers, Pumps - Replace	10	5	\$13,500	\$15,650
902 Exercise Equipment - Replace	3	2	\$5,063	\$5,371
903 Furniture - Replace/Refurbish	10	5	\$4,125	\$4,782
905 Appliances - Replace	15	10	\$2,625	\$3,528
909 Bathrooms - Refurbish	15	10	\$6,000	\$8,063
910 Club House Interior - Remodel	15	10	\$9,375	\$12,599
911 Clubhouse HVAC - Replace	15	10	\$3,375	\$4,536
1110 Paint/Carpet - Replace	10	5	\$8,250	\$9,564
1111 Rec Bldg Exterior Trim - Paint	6	5	\$5,685	\$6,590
1112 Rec Bldg Total Exterior - Paint	6	2	\$9,750	\$10,344
1115 Total Bldg 12 & 13 - Paint/Caulk	6	2	\$49,500	\$52,515
1115 Total Bldg 5 thru 10 - Paint/Caulk	6	1	\$166,500	\$171,495
1116 Bldg 12 & 13 Trim - Paint	6	5	\$33,495	\$38,830
1116 Bldg 5 thru 10 Trim - Paint	6	4	\$97,125	\$109,315
1120 Bldg 5 thru 10 Trim - Replace	N/A	1	\$101,000	\$104,030
1121 Bldg 12,13 Trim - Replace	N/A	2	\$33,600	\$35,646
1130 Building Envelope - Inspect	2	0	\$6,500	\$6,896
1200 Pool Deck - Resurface	30	25	\$20,475	\$42,870
1202 Pool - Resurface	10	5	\$9,750	\$11,303
1203 Spa - Resurface	5	0	\$3,375	\$3,913
1204 Pool/Spa Tile, Coping - Replace	20	15	\$3,715	\$5,788
1208 Pool Heater - Replace	10	9	\$3,000	\$3,914
1208 Spa Heater - Replace	10	0	\$2,625	\$3,528
1303 Comp Shingle Roof - Replace	30	24	\$290,250	\$590,018
1304 Rec Bldg Roof - Replace	30	25	\$9,565	\$20,027
1310 Gutters/Downspouts - Repair/Replace	30	24	\$33,600	\$68,302
1402 Signage - Replace	20	13	\$1,875	\$2,754
1607 Basketball Court - Seal/Stripe	8	3	\$2,438	\$2,664
1608 Basketball Assemblies - Replace	10	0	\$7,500	\$10,079
1801 Elevator - Modernize	30	25	\$260,000	\$544,382
1802 Elevator Cab - Remodel	15	10	\$36,000	\$48,381
1902 Maintenance Bldg - Maintain/Replace	25	20	\$2,185	\$3,946
43 Total Funded Components				

Note: a Useful Life of "N/A" means a one-time expense, not expected to repeat.
Cross reference component numbers with photographic inventory appendix.

See Independent Auditor's report on Unaudited Supplementary Information on page 8.