

**ORCAS HIGHLANDS ASSOCIATION
INDEPENDENT AUDITOR'S REPORT
AND
AUDITED FINANCIAL STATEMENTS
FOR THE
YEAR ENDED JUNE 30, 2019**

ORCAS HIGHLANDS ASSOCIATION

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Balance Sheet.....	3
Statement of Revenues, Expenses and Changes in Fund Balance.....	4
Statement of Cash Flows.....	5
Notes to Financial Statements	6-10

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
Orcas Highlands Association

We have audited the accompanying financial statements of Orcas Highlands Association, which comprise the balance sheet as of June 30, 2019, 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

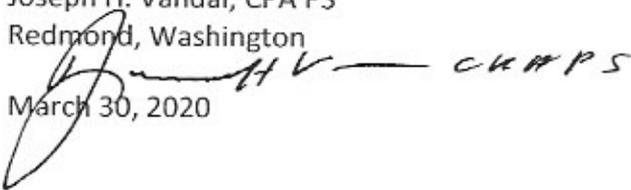
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orcas Highlands Association as of June 30, 2019, 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.

Management has omitted the information about the estimates of future costs of major repairs and replacements that accounting principles generally accepted in the United States of America require 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.

Joseph H. Vandal, CPA PS
Redmond, Washington

 CHAPS
March 30, 2020

**ORCAS HIGHLANDS ASSOCIATION
BALANCE SHEET
June 30, 2019**

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash-Checking	\$ 64,766	\$ -	\$ 64,766
Cash-Replacement Reserve	-	37,745	37,745
Assessments Receivable	1,250	-	1,250
Allowance for Doubtful Accounts	(720)	-	(720)
Prepaid Insurance	4,058	-	4,058
Prepaid Income Tax	-	4,039	4,039
Capital Improvements	110,837	-	110,837
Accumulated Depreciation	<u>(110,837)</u>	<u>-</u>	<u>(110,837)</u>
Total Assets	<u>\$ 69,354</u>	<u>\$ 41,784</u>	<u>\$ 111,138</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Accounts Payable	\$ 807	\$ -	\$ 807
Prepaid Assessments	<u>-</u>	<u>26,833</u>	<u>26,833</u>
Total Liabilities	807	26,833	27,640
Fund Balance	<u>68,547</u>	<u>14,951</u>	<u>83,498</u>
Total Liabilities & Fund Balance	<u>\$ 69,354</u>	<u>\$ 41,784</u>	<u>\$ 111,138</u>

ORCAS HIGHLANDS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND BALANCE
For the Year Ended June 30, 2019

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
REVENUES			
Assessments			
Regular	\$ 9,447	\$ 17,800	\$ 27,247
Roads	-	25,242	25,242
Sale of Assets (Net)	-	162,160	162,160
Water Usage	29,371	-	29,371
Bad Debt Recovery	2,405	-	2,405
Other	2,944	-	2,944
Interest	-	3,814	3,814
TOTAL REVENUE	<u>44,167</u>	<u>209,016</u>	<u>253,183</u>
EXPENSES			
Bookkeeping	7,335	-	7,335
Administration	4,355	-	4,355
Professional Services	2,753	-	2,753
Licenses and Permits	10	-	10
State Taxes	273	-	273
Insurance	4,235	-	4,235
General Repair/Maintenance	45	-	45
Road Maintenance	8,519	-	8,519
Water System	36,124	-	36,124
Federal Income Tax	-	33,341	33,341
Major Repairs and Replacements	-	208,984	208,984
TOTAL EXPENSES	<u>63,649</u>	<u>242,325</u>	<u>305,974</u>
REVENUES OVER/(UNDER) EXPENSES	(19,482)	(33,309)	(52,791)
BEGINNING FUND BALANCE	41,377	94,912	136,289
Transfer to (from)	<u>46,652</u>	<u>(46,652)</u>	<u>-</u>
ENDING BALANCE	<u>\$ 68,547</u>	<u>\$ 14,951</u>	<u>\$ 83,498</u>

See Independent Auditor's Report and Notes to Financial Statements

ORCAS HIGHLANDS ASSOCIATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

	OPERATING FUND	REPLACEMENT RESERVE FUND	TOTAL
<u>CASH FLOWS FROM OPERATING</u>			
<u>ACTIVITIES</u>			
REVENUE OVER/(UNDER) EXPENSES	\$ (19,482)	\$ (33,309)	\$ (52,791)
Adjustments to reconcile excess of expenses over revenues to net cash provided by activities:			
Depreciation	(375,456)	-	(375,456)
(Increase) Decrease in:			
Assessments Receivable	3,295	-	3,295
Prepaid Income Tax	-	(4,039)	(4,039)
Prepaid Insurance	(246)	-	(246)
Increase (Decrease) in:			
Accounts Payable	(6,551)	(103,922)	(110,473)
Prepaid Assessments	(1,772)	26,833	25,061
<u>NET CASH PROVIDED BY</u> <u>OPERATING ACTIVITIES</u>	<u>(400,212)</u>	<u>(114,437)</u>	<u>(514,649)</u>
<u>CASH FLOWS FROM</u>			
<u>FINANCING ACTIVITIES</u>			
Interfund transfers	46,652	(46,652)	-
<u>NET CASH (USED) PROVIDED</u> <u>BY FINANCING ACTIVITIES</u>	<u>46,652</u>	<u>(46,652)</u>	<u>-</u>
Equipment	397,981	-	-
<u>NET INCREASE (DECREASE)</u> <u>IN CASH & EQUIVALENTS</u>	<u>44,421</u>	<u>(161,089)</u>	<u>(116,668)</u>
CASH & EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>20,345</u>	<u>198,834</u>	<u>219,179</u>
CASH & EQUIVALENTS AT END OF THE PERIOD	<u>\$ 64,766</u>	<u>\$ 37,745</u>	<u>\$ 102,511</u>
<u>SUPPLEMENTAL DISCLOSURE</u>			
Federal Income Tax Paid	<u>\$ -</u>	<u>\$ 33,341</u>	<u>\$ 33,341</u>

ORCAS HIGHLANDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A – NATURE OF ORGANIZATION

Orcas Highlands Association is a statutory homeowner association in the State of Washington organized in 1972 and incorporated in 1980. The Association is responsible for the operation and maintenance of the common property of Orcas Highlands Association. Orcas Highlands Association consists of 120 residential tax parcels located on Orcas Island, 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 March 30, 2020, 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.

ORCAS HIGHLANDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE C-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Member Assessments

Association members are subject to quarterly 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 June 30, 2019, the Association had assessments delinquent 90 days or more of approximately \$720.

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.

ORCAS HIGHLANDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE D-INCOME TAXES

Homeowner associations may be taxed either as homeowners' associations or as regular corporations. In 2016, the Association elected to be taxed as a regular corporation. Under that election, the Association is taxed on its non-membership income if certain elections are made. Non-membership income includes net interest income and is taxed at regular corporate tax rates. Membership income, which consists primarily of member assessments less membership expenses, is not taxable if certain elections are made.

As of June 30, 2019, the tax years that remain subject to examination by taxing authorities begin with 2015.

NOTE E-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 \$14,951 at June 30, 2019, 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 has not conducted a study to determine the remaining useful lives of the components of common property and estimates of the costs of future major repairs and replacements that may be required in the future, nor has a plan been developed to fund those needs. When funds are required for future major repairs and replacements, the Association may have to borrow, increase maintenance assessments, pass special assessments, or delay repairs and replacements until funds are available. The effect on future assessments has not been determined.

NOTE F-COMMITMENTS

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

**ORCAS HIGHLANDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

NOTE G-ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2019:

	<u>Operating Fund</u>
Assessments	\$ 1,250
Allowance for Doubtful Accounts	<u>(750)</u>
	<u>\$ 500</u>

Bad debt recovered in the year ended June 30, 2019 was \$2,405.

NOTE H-PROPERTY GREEN BELT

The Association owns four lots designated as a green belt with a basis of \$0 that are not recorded on the financial statements and cannot be sold without a majority vote of the membership.

NOTE I-FIXED ASSETS

Fixed assets consisted of the following at June 30, 2019:

	<u>Operating Fund</u>
Equipment	\$ 110,837
Accumulated Depreciation	<u>(110,837)</u>
	<u>\$ 0</u>

Current year depreciation for the year ended June 30, 2019, was \$0.

ORCAS HIGHLANDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE J-LOAN PAYABLE

The Association applied and received approval for a loan in the amount of \$43,160 in the current year to pay for the installation of internet fiber cable. The loan will be paid for by a special assessment levied in the 2019 fiscal year. At June 30, 2019, the balance of the loan was \$0.

NOTE K-SPECIAL ASSESSMENT

The Association approved a special assessment in the amount of \$49,640 to cover loan payments. The assessment is due in quarterly payments over 5 years beginning July 1, 2019 or may be made in one lump sum prior to July 1, 2019. Prepayments in the amount of \$26,833 were received prior to July 1, 2019.

NOTE L-SALE OF ASSETS

The Association sold the water system in the 2018 fiscal year. The sale is recorded in the financial statements.