

ORCAS HIGHLANDS ASSOCIATION
INDEPENDENT AUDITOR'S REPORT
AND
AUDITED FINANCIAL STATEMENTS
FOR THE
YEAR ENDED JUNE 30, 2017

ORCAS HIGHLANDS 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
Orcas Highlands Association

We have audited the accompanying financial statements of Orcas Highlands Association, which comprise the balance sheet as of June 30, 2017, 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

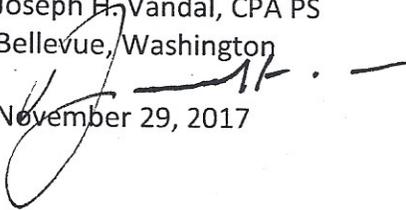
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017, 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
Bellevue, Washington


November 29, 2017

ORCAS HIGHLANDS ASSOCIATION
BALANCE SHEET
June 30, 2017

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash-Checking	\$ 36,629	\$ -	\$ 36,629
Cash-Replacement Reserve	-	186,230	186,230
Assessments Receivable	2,998	-	2,998
Allowance for Doubtful Accounts	(1,100)	-	(1,100)
Prepaid Insurance	6,554	-	6,554
Capital Improvements	508,818	-	508,818
Accumulated Depreciation	<u>(475,201)</u>	<u>-</u>	<u>(475,201)</u>
 Total Assets	 <u>\$ 78,698</u>	 <u>\$ 186,230</u>	 <u>\$ 264,928</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
Accounts Payable	\$ 8,682	\$ -	\$ 8,682
Prepaid Assessments	<u>1,756</u>	<u>-</u>	<u>1,756</u>
 Total Liabilities	 10,438	 -	 10,438
 Fund Balance	 <u>68,260</u>	 <u>186,230</u>	 <u>254,490</u>
 Total Liabilities & Fund Balance	 <u>\$ 78,698</u>	 <u>\$ 186,230</u>	 <u>\$ 264,928</u>

ORCAS HIGHLANDS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND BALANCE
For the Year Ended June 30, 2017

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
REVENUES			
Assessments			
Regular	\$ 24,260	\$ -	\$ 24,260
Roads	-	30,671	30,671
Water System	-	21,203	21,203
Water Usage	81,922	-	81,922
Bad Debt Recovery	100	-	100
Other	262	-	262
TOTAL REVENUE	<u>106,544</u>	<u>51,874</u>	<u>158,418</u>
EXPENSES			
Management Fee	6,855	-	6,855
Administration	1,884	-	1,884
Professional Services	16,939	-	16,939
State Taxes	3,227	-	3,227
Insurance	6,523	-	6,523
Road Maintenance	17,334	-	17,334
Water System	32,329	-	32,329
Water Usage	51,460	-	51,460
Depreciation Expense	24,916	-	24,916
TOTAL EXPENSES	<u>161,467</u>	<u>-</u>	<u>161,467</u>
REVENUES OVER/(UNDER) EXPENSES	(54,923)	51,874	(3,049)
BEGINNING FUND BALANCE	93,047	164,492	257,539
Transfer to (from)	<u>30,136</u>	<u>(30,136)</u>	<u>-</u>
ENDING BALANCE	<u>\$ 68,260</u>	<u>\$ 186,230</u>	<u>\$ 254,490</u>

ORCAS HIGHLANDS ASSOCIATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
<u>CASH FLOWS FROM OPERATING</u>			
<u>ACTIVITIES</u>			
REVENUE OVER/(UNDER) EXPENSES	\$ (54,923)	\$ 51,874	\$ (3,049)
Adjustments to reconcile excess of expenses over revenues to net cash provided by activities:			
Depreciation	24,916	-	24,916
(Increase) Decrease in:			
Assessments Receivable	582	-	582
Prepaid Insurance	(6,554)	-	(6,554)
Increase (Decrease) in:			
Accounts Payable	8,352	-	8,352
Prepaid Assessments	257	-	257
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>(27,370)</u>	<u>51,874</u>	<u>24,504</u>
<u>CASH FLOWS FROM</u>			
<u>FINANCING ACTIVITIES</u>			
Interfund transfers	30,136	(30,136)	-
<u>NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES</u>			
Equipment	(17,837)	(30,136)	-
NET INCREASE (DECREASE) IN CASH & EQUIVALENTS	(15,071)	21,738	6,667
CASH & EQUIVALENTS AT BEGINNING OF THE PERIOD	51,700	164,492	216,192
CASH & EQUIVALENTS AT END OF THE PERIOD	<u>\$ 36,629</u>	<u>\$ 186,230</u>	<u>\$ 222,859</u>

ORCAS HIGHLANDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE A – NATURE OF ORGANIZATION

Orcas Highlands Association is a statutory condominium 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 November 29, 2017, 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, 2017

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, 2017, the Association had assessments delinquent 90 days or more of approximately \$1,100.

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, 2017

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 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.

As of June 30, 2017, the tax years that remain subject to examination by taxing authorities begin with 2013.

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 \$186,230 at June 30, 2017, 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, 2017**

NOTE G-ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2017:

	<u>Operating Fund</u>
Assessments	\$ 2,998
Allowance for Doubtful Accounts	<u>(1,100)</u>
	<u>\$ 1,898</u>

Bad debt recovered in the year ended June 30, 2017 was \$100.

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, 2017:

	<u>Operating Fund</u>
Capital Improvements	\$ 508,818
Accumulated Depreciation	<u>(475,201)</u>
	<u>\$ 33,617</u>

Current year depreciation for the year ended June 30, 2017, was \$24,916