

ORCAS HIGHLANDS ASSOCIATION
INDEPENDENT AUDITOR'S REPORT
AND
AUDITED FINANCIAL STATEMENTS
FOR THE
YEAR ENDED JUNE 30, 2021
AND
UNAUDITED SUPPLEMENTARY INFORMATION

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, 2021, 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.

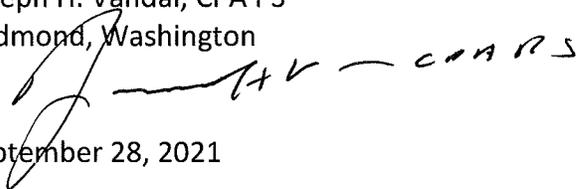
Opinion

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, 2021, 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on common property on page 11 be presented to supplement the basic financial statements. Such 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 basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Joseph H. Vandal, CPA PS
Redmond, Washington

A handwritten signature in black ink, appearing to read "J. H. Vandal - CPA PS". The signature is written over the printed name and title.

September 28, 2021

ORCAS HIGHLANDS ASSOCIATION
BALANCE SHEET
June 30, 2021

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash-Checking	\$ 36,049	\$ -	\$ 36,049
Cash-Replacement Reserve	-	60,859	60,859
Assessments Receivable	913	-	913
Allowance for Doubtful Accounts	(686)	-	(686)
Prepaid Insurance	4,204	-	4,204
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>\$ 40,480</u>	 <u>\$ 64,898</u>	 <u>\$ 105,378</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
Accounts Payable	\$ 4,211	\$ -	\$ 4,211
Loan Payable	-	29,268	29,268
Prepaid Assessments	<u>1,660</u>	<u>-</u>	<u>1,660</u>
 Total Liabilities	 5,871	 29,268	 35,139
 Fund Balance	 <u>34,609</u>	 <u>35,630</u>	 <u>70,239</u>
 Total Liabilities & Fund Balance	 <u>\$ 40,480</u>	 <u>\$ 64,898</u>	 <u>\$ 105,378</u>

ORCAS HIGHLANDS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND BALANCE
For the Year Ended June 30, 2021

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
REVENUES			
Assessments			
Regular	\$ 21,771	\$ -	\$ 21,771
Roads	-	30,576	30,576
Special Assessment	-	8,534	8,534
Bad Debt Recovery	1,782	-	1,782
Other	4,304	-	4,304
Interest	-	6	6
TOTAL REVENUE	<u>27,857</u>	<u>39,116</u>	<u>66,973</u>
EXPENSES			
Bookkeeping	8,210	-	8,210
Administration	2,485	-	2,485
Professional Services	2,800	-	2,800
State Taxes	247	-	247
Insurance	4,257	-	4,257
Wildfire Mitigation	8,995	-	8,995
Road Maintenance	5,579	-	5,579
Interest Expense	-	4,703	4,703
TOTAL EXPENSES	<u>32,573</u>	<u>4,703</u>	<u>37,276</u>
REVENUES OVER/(UNDER) EXPENSES	(4,716)	34,413	29,697
BEGINNING FUND BALANCE	38,068	2,474	40,542
Transfer to (from)	<u>1,257</u>	<u>(1,257)</u>	<u>-</u>
ENDING BALANCE	<u>\$ 34,609</u>	<u>\$ 35,630</u>	<u>\$ 70,239</u>

**ORCAS HIGHLANDS ASSOCIATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2021**

	OPERATING FUND	REPLACEMENT RESERVE FUND	TOTAL
<u>CASH FLOWS FROM OPERATING</u>			
<u>ACTIVITIES</u>			
REVENUE OVER/(UNDER) EXPENSES	\$ (4,716)	\$ 34,413	\$ 29,697
Adjustments to reconcile excess of expenses over revenues to net cash provided by activities:			
(Increase) Decrease in:			
Assessments Receivable	2,035	-	2,035
Prepaid Insurance	(265)	-	(265)
Increase (Decrease) in:			
Accounts Payable	3,723	-	3,723
Loan Payable	-	(7,974)	(7,974)
Prepaid Assessments	1,370		1,370
<u>NET CASH PROVIDED BY</u> <u>OPERATING ACTIVITIES</u>	<u>2,147</u>	<u>26,439</u>	<u>28,586</u>
<u>CASH FLOWS FROM</u>			
<u>FINANCING ACTIVITIES</u>			
Interfund transfers	1,257	(1,257)	-
NET INCREASE (DECREASE) IN CASH & EQUIVALENTS	3,404	25,182	28,586
CASH & EQUIVALENTS AT BEGINNING OF THE PERIOD	32,645	35,677	68,322
CASH & EQUIVALENTS AT END OF THE PERIOD	\$ 36,049	\$ 60,859	\$ 96,908
<u>SUPPLEMENTAL DISCLOSURE</u>			
Interest Paid	\$ -	\$ 4,703	\$ 4,703

ORCAS HIGHLANDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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 September 28, 2021, 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, 2021

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, 2021, the Association had assessments delinquent 90 days or more of approximately \$686.

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.

NOTE D-COMMITMENTS

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

NOTE E-SPECIAL ASSESSMEN

The Association collected an additional \$60 per month for a special assessment in the amount of to pay for fiber installation.

ORCAS HIGHLANDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE F-INCOME TAXES

Condominium Associations may be taxed either as homeowners' Associations or as regular corporations. In 2018, 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, 2021, the tax years that remain subject to examination by taxing authorities begin with 2017.

NOTE G-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 \$35,630 at June 30, 2021, 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 performed a self-study in 2020 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is partially funding for such major repairs and replacements over the estimated 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 Association has the right, subject to the limitations of the authority 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.

NOTE H-LOAN PAYABLE

The Association took out a loan in the amount of \$42,910 to pay for fiber installation. At June 30, 2021 the balance of loan was approximately \$29,268.

**ORCAS HIGHLANDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2021**

NOTE G-ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2021:

	<u>Operating Fund</u>
Assessments	\$ 913
Allowance for Doubtful Accounts	<u>(686)</u>
	<u>\$ 227</u>

Bad debt recovered for the year ended June 30, 2021, was \$1,782.

SUPPLEMENTARY INFORMATION

ORCAS HIGHLANDS ASSOCIATION
UNAUDITED SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS
June 30, 2021

The Association conducted a self-study in 2020 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 effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following information on page 11 is based on the study and present 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 11

UNAUDITED SUPPLEMENTARY INFORMATION

Orcas Highlands Association

Reserve Study

Reserve Study
Executive Summary

Orcas Highlands Association
Orcas Island, Washington
Level of Service: Reserve Study – FULL

120 Lots
July 1, 2020 through June 30, 2021

Starting Road Fund Reserve Balance.....	\$17,786.50
Starting Reserve Fund.....	\$9977
Fully Funded Reserve Balance.....	\$34,240
Percent Funded.....	81%
Recommended 2020 Quarterly "Fully Funding" Reserve Contribution.....	\$21,600
Recommended 2020 "Special Assessment" for Reserve.....	\$0
Most recent Reserve Contribution Rate per Quarter per Lot.....	\$45

Risk of a Special Assessment.....Low

Economic Assumptions

Annual Inflation Rate including rate of petroleum.....4.00%

Comments:

This reserve study was prepared by the Board of Directors for the Orcas Highlands Association. The unique construction costs and remote location of the Association property limits the number of contractors available to maintain the roadway system and would be difficult for an outside consultant to estimate costs of repair. Additionally, the cost of a credentialed Reserve Specialist to develop a study would be in excess of 5% of the annual budget and create an undue hardship on the Association.

The Road Fund Reserve funds are needed for the paving of the Association's road system. The roadway paving and subgrade is estimated to have a viable life span of 8 – 10 years. Some lightly used sections historically last much longer, wear and deterioration is not uniform and repaving applications varies by section. We are basing the reserve funding on being able to repave in 7 – 8 years with funds left over for beginning to rebuild for the next 8-year cycle.

The Reserve Fund is to provide moneys for rebuilding the mailbox structure. The structure has an estimated life span of 20 years and will need reroofing at that time. It may be decided to replace the structure with a modular system in the future as the volume of mail is on the decline. The current balance in the reserve account will accommodate future needs and does not require additional funding.