

ORCAS HIGHLANDS ASSOCIATION
INDEPENDENT AUDITOR'S REPORT
AND
AUDITED FINANCIAL STATEMENTS
FOR THE
YEAR ENDED JUNE 30, 2024

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, 2024, 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.

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, 2024, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibility under those standards are further described in the auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Orcas Highlands Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Orcas Highlands Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

INDEPENDENT AUDITOR'S REPORT--Continued

Auditor's Responsibilities for the Audit of the Financial Statements - Continued

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Orcas Highlands Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Orcas Highlands Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Disclaimer of Opinion on Required Supplementary Information

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

April 18, 2025

**ORCAS HIGHLANDS ASSOCIATION
BALANCE SHEET
June 30, 2024**

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash-Checking	\$ 40,001	\$ 43,899	\$ 83,900
Certificates of Deposit	-	76,780	76,780
Assessments Receivable	5,057	-	5,057
Allowance for Doubtful Accounts	(1,923)	-	(1,923)
Prepaid Insurance	2,129	-	2,129
Capital Improvements	110,837	-	110,837
Accumulated Depreciation	<u>(110,837)</u>	<u>-</u>	<u>(110,837)</u>
Total Assets	<u>\$ 45,264</u>	<u>\$ 120,679</u>	<u>\$ 165,943</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Prepaid Assessments	<u>\$ 1,425</u>	<u>\$ -</u>	<u>\$ 1,425</u>
Total Liabilities	1,425	-	1,425
Fund Balance	<u>43,839</u>	<u>120,679</u>	<u>164,518</u>
Total Liabilities & Fund Balance	<u>\$ 45,264</u>	<u>\$ 120,679</u>	<u>\$ 165,943</u>

ORCAS HIGHLANDS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND BALANCE
For the Year Ended June 30, 2024

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
REVENUES			
Assessments			
Regular	\$ 20,579	\$ 20,865	\$ 41,444
Roads	-	13,305	13,305
Fiber Assessments	-	12,143	12,143
Wildfire Mitigation Assessments	-	47,545	47,545
Other	6,169	-	6,169
Interest	-	1,782	1,782
TOTAL REVENUE	<u>26,748</u>	<u>95,640</u>	<u>122,388</u>
EXPENSES			
Bookkeeping	8,675	-	8,675
Administration	2,772	-	2,772
Professional Services	2,900	-	2,900
State Taxes	287	-	287
Insurance	5,165	-	5,165
Road Maintenance	15,358	-	15,358
Water System	56,906	-	56,906
Bad Debt	332	-	332
TOTAL EXPENSES	<u>92,395</u>	<u>-</u>	<u>92,395</u>
REVENUES OVER/(UNDER) EXPENSES	(65,647)	95,640	29,993
BEGINNING FUND BALANCE	33,143	101,382	134,525
Transfer to (from)	<u>76,343</u>	<u>(76,343)</u>	<u>-</u>
ENDING BALANCE	<u>\$ 43,839</u>	<u>\$ 120,679</u>	<u>\$ 164,518</u>

**ORCAS HIGHLANDS ASSOCIATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2024**

	OPERATING FUND	REPLACEMENT RESERVE FUND	TOTAL
<u>CASH FLOWS FROM OPERATING</u>			
<u>ACTIVITIES</u>			
REVENUE OVER/(UNDER) EXPENSES	\$ (65,647)	\$ 95,640	\$ 29,993
Adjustments to reconcile excess of expenses over revenues to net cash provided by activities:			
(Increase) Decrease in:			
Assessments Receivable	(817)	-	(817)
Prepaid Insurance	583	-	583
Increase (Decrease) in:			
Prepaid Assessments	618	-	618
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>(65,263)</u>	<u>95,640</u>	<u>30,377</u>
<u>CASH FLOWS FROM</u>			
<u>FINANCING ACTIVITIES</u>			
Interfund transfers	76,343	(76,343)	-
<u>NET INCREASE (DECREASE) IN CASH & EQUIVALENTS</u>	11,080	19,297	30,377
<u>CASH & EQUIVALENTS AT BEGINNING OF THE PERIOD</u>	<u>28,921</u>	<u>101,382</u>	<u>130,303</u>
<u>CASH & EQUIVALENTS AT END OF THE PERIOD</u>	<u>\$ 40,001</u>	<u>\$ 120,679</u>	<u>\$ 160,680</u>

ORCAS HIGHLANDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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 April 18, 2025, 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, 2024

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, 2024, the Association had assessments delinquent 90 days or more of approximately \$1,923.

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-INCOME TAXES

Condominium associations may be taxed either as homeowners' associations or as regular corporations. In 2023, 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, 2024, the tax years that remain subject to examination by taxing authorities begin with 2020.

**ORCAS HIGHLANDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2024**

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 \$120,679 at June 30, 2024, 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.

NOTE G-ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2024:

	<u>Operating Fund</u>
Assessments	\$ 5,057
Allowance for Doubtful Accounts	<u>(1,923)</u>
	<u>\$ 3,134</u>

Bad debt expense for the period ended June 30, 2024, was approximately \$332.