

**Sunland Division 17 Owners Association
(A Washington Homeowners' Association)**

**REVIEWED FINANCIAL STATEMENTS
December 31, 2018**

**Olympic Tax & Business Consulting, LLC
Certified Public Accountants**

**Sunland Division 17 Owners Association
(A Washington Homeowners' Association)**

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors and Members
Sunland Division 17 Owners Association
Sequim, Washington

We have reviewed the accompanying financial statements of Sunland Division 17 Owners Association (A Washington homeowner's association), which comprise the balance sheet as of December 31, 2018, and the related statement of revenues, expenses and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

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Emphasis of Matter

As described in Subsequent Event 1 in the Notes to the Financial Statements, the Association is currently named in a legal action. The Association has determined that it is not possible to predict the eventual outcome of the legal action but has determined that the resolution of the action will not result in an adverse judgment that would materially affect the financial statements. Accordingly, the accompanying financial statements do not include any adjustments related to the legal action under Financial Accounting Standards Board (FASB) ASC 450, *Contingencies*.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Olympic Tax & Business Consulting, LLC

Sequim, Washington
June 30, 2019

Olympic Tax & Business Consulting, LLC
Certified Public Accountants

SUNLAND DIVISION 17 OWNERS ASSOCIATION
A Washington Homeowners' Association
Balance Sheet
December 31, 2018

ASSETS	Operating Fund	Reserve Fund	Fire Trust Fund	Total
CURRENT ASSETS				
Cash & Cash Equivalents	19,398	343,196	510,800	873,394
TOTAL CURRENT ASSETS	19,398	343,196	510,800	873,394
 TOTAL ASSETS	\$ 19,398	\$ 343,196	\$ 510,800	\$ 873,394
LIABILITIES & FUND BALANCES				
LIABILITIES				
Accounts Payable and Accrued Liabilities	18,235	-	-	18,235
TOTAL LIABILITIES	18,235	-	-	18,235
FUND BALANCES				
Restricted Fund Balance	-	343,196	510,800	853,996
Unrestricted Fund Balance	1,163	-	-	1,163
TOTAL FUND BALANCES	1,163	343,196	510,800	855,159
 TOTAL LIABILITIES AND FUND BALANCES	\$ 19,398	\$ 343,196	\$ 510,800	\$ 873,394

See Independent Accountants' Report and Notes to Financial Statements

SUNLAND DIVISION 17 OWNERS ASSOCIATION
A Washington Homeowners' Association
Statement of Revenues, Expenses and Changes in Fund Balances
For the Year Ended December 31, 2018

	Operating Fund	Reserve Fund	Fire Trust Fund	Total
REVENUES				
Dues	350,317			350,317
Special Assessments	782			782
Insurance Proceeds			15,735	15,735
Document Fees	500			500
Late Fees	170			170
Interest	-	4,061	1,710	5,771
TOTAL REVENUES	351,769	4,061	17,445	373,275
EXPENSES				
Administrative Costs	5,930			5,930
Taxes	894			894
Insurance	68,724			68,724
Developed Area Landscape Maintenance	133,053			133,053
Greenbelt Maintenance	5,376			5,376
Repairs and Maintenance	25,283	49,431		74,714
Restoration Expenses			35,313	35,313
Other Expenses	14,249			14,249
TOTAL EXPENSES	253,509	49,431	35,313	338,253
Excess of Revenues over Expenses	98,260	(45,370)	(17,868)	35,022
Interfund Transfers	(101,431)	101,431		-
Fund Balance - Beginning of Year	4,334	287,135	528,668	820,137
Fund Balance - End of Year	\$ 1,163	\$ 343,196	\$ 510,800	\$ 855,159

See Independent Accountants' Report & Notes to Financial Statements

SUNLAND DIVISION 17 OWNERS ASSOCIATION
A Washington Homeowners' Association
Statement of Cash Flows
For the Year Ended December 31, 2018

	Operating Fund	Reserve Fund	Fire Trust Fund	Total
Cash Provided by Operations:				
Excess of Revenues over Expenses	98,260	(45,370)	(17,868)	35,022
Adjustments				
Increase in Accounts Payable	3,166	-	-	3,166
Total Adjustments	3,166	-	-	3,166
Net Cash Flow provided by Operations	101,426	(45,370)	(17,868)	38,188
Cash Provided from Investment Activities				
Interfund Transfers	(101,431)	101,431	-	-
Net Cash Flows	(5)	56,061	(17,868)	38,188
Cash Balance - Beginning of Year	19,403	287,135	528,668	835,206
Cash Balance - End of Year	<u>\$ 19,398</u>	<u>\$ 343,196</u>	<u>\$ 510,800</u>	<u>\$ 873,394</u>

See Independent Accountants' Report & Notes to Financial Statements

Sunland Division 17 Owners Association
A Washington Homeowners' Association
Notes to Financial Statements
December 31, 2018

Note 1 – Organization

Sunland Division 17 Owners Association is a non-profit homeowners association organized under Washington State law. The Association provides common area maintenance for the membership it serves. There are currently 133 townhomes that are part of the Association. Members of the Association are also members of Sunland Owners Association, a separate entity.

The Association maintains the common areas of the Sunland North subdivision and exterior of members' townhomes, as well as managing and enforcing the subdivision's covenants, conditions and restrictions (CC&Rs) and by-laws. There is currently property available for development. At full occupancy, the Association will have 139 members.

Over 90% of the Association income is derived directly from members for dues and services associated with the Association's primary activity.

Note 2 – Summary of Significant Accounting Policies

A. Fund Accounting

The Association uses fund accounting, which requires that funds be classified separately for accounting and reporting purposes. As of December 31, 2018, the Association had the following funds:

General – Disbursements from this fund are generally at the discretion of the Board of Directors and include the day-to-day operations of the Association.

Reserve – This fund accumulates monies for major repairs, replacements and additions to Association structures they are responsible for. Disbursement from this fund generally may be made only for designated purposes as approved by the Board.

Fire Trust Fund – This fund is used to account for the receipt and disbursement of monies received from the proceeds on an insurance claim. Please see Subsequent Event 1 below.

B. Basis of Accounting

These financial statements have been prepared on the accrual basis of accounting which recognizes revenues when assessed or earned and expenses when incurred.

C. Cash and Cash Equivalents

Cash includes cash on hand, checking accounts, money market accounts and certificates of deposit. The Association holds no short-term investments.

The Association maintains checking accounts with local banks which are insured by the Federal Deposit Insurance Corporation (FDIC). The Association had no uninsured balances because each individual bank did not have in excess of \$250,000 of funds at December 31, 2018.

D. Allowance for Uncollectible Accounts

The Association has the right to place liens on the property of members for unpaid dues and charges. As of December 31, 2018 there were no outstanding liens. As a result of this lien right, no provision has been made for uncollectible assessment.

E. Use of 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 – Unearned Revenues

Some of the owners pay their dues in advance. At December 31, 2018 the amount of \$756 was included in liabilities as unearned revenue.

Note 4 – Income Taxes

Federal regulations allow a homeowners association an alternate method of paying income taxes. Under the regulations, the Association pays 30% tax on all non-exempt income including interest and income from non-exempt activities. The alternative method normally employed by the district eliminates the need for any deferred income tax credits. There are no carry-over provisions or timing differences under the alternative method. For 2018, the Association elected to file as a homeowners' association. Income taxes paid in 2018 totaled \$894. The Association considers the payment and expense in the year paid. Income taxes are considered an expense in the year paid. Returns are subject to review by the Internal Revenue Service. Generally, the current and two prior years are subject to audit. There are currently no notices or adjustments associated with the open returns.

During 2018 the Association received \$15,734 in insurance proceeds due to a fire loss. See Subsequent Event 1 below. The Association has determined that there is no federal income tax due on the payment. Until restoration efforts are complete, the actual tax situation cannot be determined.

Note 5 – Replacement Reserves

The Association has set aside funds in a reserve account to meet repair and replacement needs of assets. The funds have been placed in an insured money market account and certificates of deposit. As of December 31, 2018 the balance of the reserve account was \$343,196.

At December 31, 2017 the account totaled \$287,135. Deposits to the reserve fund during the year were \$101,431.

During 2014 the Association contracted with Association Reserves WA, LLC to complete a reserve study. That study indicated that the Reserve Fund was currently funded at 11%. As a result of that study, the annual reserve funding has been increased. As of December 31, 2018 the Association has determined that the Reserve Fund is funded at 31%.

Note 6 – Long-term Debt

The Association has no long-term debt or obligations under long-term leases as of December 31, 2018.

Note 7 – Fixed Assets

The Association has no fixed assets or related depreciation.

Note 8 – Subsequent Events

In preparing these financial statements, the Association has evaluated events and transactions potential of recognition by disclosure through June 30, 2019, the date the financial statements were available to be issued. There are two subsequent events as described below.

Subsequent Event 1 – Fire Loss

On July 20, 2017 a fire originated in one unit of the Association that destroyed that unit and damaged the adjoining unit. The Association, as the representative of the collective owners, was the insured party for the event. The estimated loss was \$725,098. In September 2017 the Association received a check in the amount of \$681,109 from the Community Association Underwriters (CAU) representing the after-depreciated value of the claim. The Association paid \$152,900 in restoration costs during the balance of the year. The balance in the Fire Trust account at December 31, 2018 was \$510,800.

The position of the directors is that their responsibility is to restore the units to the condition the day before the fire. The project is currently on hold due to disagreements with some owners regarding the restoration process. The owners filed suit against the Association in early 2018. Hearings related to the lawsuit took place during 2018 and in 2019. The judge recently ruled that the plaintiff owners must sign the applications for the building permit to move the project forward. The owners duly signed the building permit moving the project forward. Another court hearing is scheduled for July 19, 2019 where the Association's attorneys will request a Summary Judgment. The attorneys have also been in contact with CAU requesting an extension for the time allowed to complete restoration. The deadline is currently

set for the end of July 2019. The board expects information soon confirming the extension.

During 2017 the association paid \$6,725 from the general fund for fire loss related activities. During 2018 the amount paid from the general fund for fire loss related activities was \$14,074 and through April 2019, the current year amount is \$273,758.

Subsequent Event 2 – 2019 Flood Damage Loss

In 2019 a new insurance claim was filed related to flood damage that was the result of a plumbing issue caused by winter freezing temperatures. The full amount of the damage claim was \$26,786. The Association received \$21,786 from CAU in May of 2019 for this claim. To date, \$19,157 has been disbursed to repair property related to this claim with the final costs to be paid by July 2019. The owners of the unit will share the uncovered cost of the claim.