

**Sunland Division 17 Owners Association**  
**Financial Statements**  
**For the Year Ended December 31, 2023**



**NEWMAN**  
Certified Public Accountant, PC

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**TABLE OF CONTENTS**

Independent Accountant’s Review Report.....	3-4
Balance Sheet.....	.5
Statement of Revenues and Expenses and Changes in Fund Balances .....	.6
Statement of Cash Flows .....	.7
Notes to Financial Statements.....	8-11
Supplementary Information .....	.12



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## **Independent Accountant's Review Report**

To the Board of Directors of Sunland Division 17 Owners Association

We have reviewed the accompanying financial statements of Sunland Division 17 Owners Association, which comprise the balance sheet as of December 31, 2023, and the related statements 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 Association 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 opinion.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and the 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 the 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.

We are required to be independent of Sunland Division 17 Owners Association, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

### **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.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property be presented to supplement the basic financial statements. Such information, although not a required 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. The information is the responsibility of management. We have compiled the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We have not audited or reviewed the required supplementary information and do not express an opinion, a conclusion, nor provide any assurance on it.

*Newman Certified Public Accountant, PC.*

**Newman Certified Public Accountant, PC**

Bellevue, Washington

July 25, 2024

**Sunland Division 17 Owners Association  
Balance Sheet  
December 31, 2023**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 10,211	\$ 292,738	\$ 302,949
Investments	-	591,647	591,647
Assessments receivable	4,896	-	4,896
Prepaid insurance	31,880	-	31,880
Prepaid income taxes	857	-	857
<b>Total assets</b>	<u>\$ 47,844</u>	<u>\$ 884,385</u>	<u>\$ 932,229</u>
<b>Liabilities</b>			
Prepaid assessments	1,874	-	1,874
Contract liabilities (assessments received in advance - replacement fund)	-	880,430	880,430
<b>Total liabilities</b>	<u>1,874</u>	<u>880,430</u>	<u>882,304</u>
<b>Fund balances</b>	<u>45,970</u>	<u>3,955</u>	<u>49,925</u>
<b>Total liabilities and fund balances</b>	<u>\$ 47,844</u>	<u>\$ 884,385</u>	<u>\$ 932,229</u>

The accompanying notes are an integral part of the financial statements  
(See Independent Accountant's Review Report)

**Sunland Division 17 Owners Association**  
**Statement of Revenues and Expenses and Changes in Fund Balances**  
**For the Year Ended December 31, 2023**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>Revenues</b>			
Owners' assessments	\$ 511,535	\$ -	\$ 511,535
Interest	81	19,502	19,583
Other member income	640	-	640
<b>Total revenues</b>	<u>512,256</u>	<u>19,502</u>	<u>531,758</u>
<b>Expenses</b>			
Common Area			
Landscape and irrigation	172,737	-	172,737
Common area repairs and maintenance	27,767	13,156	40,923
Electrical repair and maintenance	17,195	-	17,195
	<u>217,699</u>	<u>13,156</u>	<u>230,855</u>
Administrative			
Insurance	93,899	-	93,899
Legal and professional	3,030	-	3,030
Administrative expense	15,349	2,391	17,740
Income tax expense	6,296	-	6,296
	<u>118,574</u>	<u>2,391</u>	<u>120,965</u>
<b>Total expenses</b>	<u>336,273</u>	<u>15,547</u>	<u>351,820</u>
<b>Excess (deficit) of revenues over (under) expenses</b>	175,983	3,955	179,938
<b>Beginning fund balances</b>			
Transfer to contract liabilities	(186,000)	-	(186,000)
Prior period adjustment	30,138	-	30,138
<b>Ending fund balances</b>	<u>\$ 45,970</u>	<u>\$ 3,955</u>	<u>\$ 49,925</u>

The accompanying notes are an integral part of the financial statements  
(See Independent Accountant's Review Report)

**Sunland Division 17 Owners Association  
Statement of Cash Flows  
For the Year Ended December 31, 2023**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>Excess (deficit) of revenues over (under) expenses</b>	\$ 175,983	\$ 3,955	\$ 179,938
Adjustments to reconcile excess (deficit) of revenues over (under) expenses to net cash provided (used) by operating activities			
Decrease (Increase) in operating assets:			
Assessments receivable	2,984	-	2,984
Prepaid insurance	(31,880)	-	(31,880)
Prepaid income taxes	(857)	-	(857)
Increase (Decrease) in operating liabilities:			
Prepaid assessments	(1,774)	-	(1,774)
Contract liabilities (assessments received in advance - replacement fund)	-	186,000	186,000
Prior period adjustment	30,138	-	30,138
Total adjustments	<u>(1,389)</u>	<u>186,000</u>	<u>184,611</u>
Net cash provided (used) by operating activities	<u>174,594</u>	<u>189,955</u>	<u>364,549</u>
Cash provided (used) by investing activities:			
Investments	-	(591,647)	(591,647)
Net cash flows from investing activities	<u>-</u>	<u>(591,647)</u>	<u>(591,647)</u>
Cash provided (used) by financing activities:			
Transfer to contract liabilities	(186,000)	-	(186,000)
Net cash flows from financing activities	<u>(186,000)</u>	<u>-</u>	<u>(186,000)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(11,406)	(401,692)	(413,098)
<b>Beginning cash and cash equivalents</b>	21,617	694,430	716,047
<b>Ending cash and cash equivalents</b>	<u>\$ 10,211</u>	<u>\$ 292,738</u>	<u>\$ 302,949</u>
<b>SUPPLEMENTAL DISCLOSURE</b>			
Income taxes paid			\$ -
Interest paid			\$ -

The accompanying notes are an integral part of the financial statements  
(See Independent Accountant's Review Report)

**Sunland Division 17 Owners Association**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2023**

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**1. Organization**

Sunland Division 17 Owners Association (the "Association") was incorporated on May 12, 1999, as a nonprofit mutual benefit corporation under the laws of Washington for the purposes of maintaining and preserving common property. The Association consists of 139 residential homes and is located in Sequim, Washington.

**2. Date of Management's Review**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 25, 2024, the date that the financial statements were available to be issued.

**3. Summary of Significant Accounting Policies**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Board of Directors 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 revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

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 - The fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund - The fund is used to accumulate financial resources designated for future major repairs and replacements.

Members Assessments and Allowance for Credit Losses

Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on properties of owners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. The Association treats uncollectible assessments as credit losses. Methods, inputs, and assumptions used to evaluate when assessments are considered uncollectible include closely monitoring of outstanding assessment balances by management, member payment history of outstanding assessment balances, and susceptibility to factors outside the Association's control. The balances of assessments receivable as of the beginning and end of the year are \$7,880 and \$4,896, respectively. After the Board of Directors has exhausted all efforts to collect delinquent accounts, the Board of Directors may elect to write off uncollectible balances.



**Sunland Division 17 Owners Association**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2023**

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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 the individual unit owners in common and not by the Association.

Contract Liabilities (Assessments received in advance – replacement fund)

The Association recognizes replacement fund (reserves) revenue from members as related performance obligations are satisfied. A contract liability (assessments received in advance – replacement fund) is recorded when the Association has the right to receive payment in advance of satisfaction of performance obligations related to replacement reserve assessments. The balance of Contract Liabilities (assessments received in advance – replacement fund) as of the beginning and end of the year are \$694,430 and \$880,430, respectively.

Income Tax

The Association's policy is to record interest expenses or penalties related to income tax in operating expenses.

Interest Income

Interest income is recognized when earned and allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

Cash and Cash Equivalents

Cash and cash equivalents include the Association's cash, checking accounts, money market funds and investments in certificates of deposit with original maturities of 90 days or less.

Investments

Investments consist of certificates of deposit and other securities and investment accounts with original maturities of more than 90 days.

**4. Income Taxes**

Common Interest Realty Associations are generally taxed either as a qualifying Internal Revenue Code (IRC) Section 528 homeowners' association or as a regular corporation subject to the special provisions of IRC Section 277 for membership organizations. For the current year, the Association has met IRC Section 528 eligibility requirements and has chosen to file Form 1120-H for its federal income tax return. The income tax filing determination is assessed for each tax year and only pertains to the tax year being evaluated.

IRC Section 528 requires that the Association separates all of its income and expense activity between three categories: exempt function, nonexempt function and capital. Taxable income includes net nonexempt function income, such as interest and other nonmember sourced income. In the determination of net taxable income, certain expenses were allocated to offset a portion of the Association's taxable income. The Form 1120-H tax rate is 30%.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Association and has concluded that as of the year end, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The

**Sunland Division 17 Owners Association**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2023**

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Association is subject to routine audits by taxing jurisdictions. The Internal Revenue Service can examine the Association's income tax returns, generally up to three years. There are currently no audits in progress for any tax period.

**5. Future Major Repairs and Replacements**

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate bank accounts and are generally not available for operating fund expenses.

The Board of Directors conducted a reserve study to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on this study.

The Association is funding such major repairs and replacements over the estimated useful 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 estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or to levy special assessments, or it may delay major repairs and replacements until funds are available.

The Association's reserve study for the year commencing January 1, 2024, calculated fully funded reserves of \$29,72,831 and stated that as of the date the reserve study was prepared, the Association was 25.6% funded. The reserve study recommends baseline funding, 70% threshold funding or full funding of \$21,100, \$30,420 or \$34,750 per month, respectively, for 2024. The Association has budgeted 2024 replacement fund contributions totaling \$0.

**6. FASB ASC 606 Revenue Recognition**

The Financial Accounting Standards Boards (FASB) issued new guidance that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standards (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, Real Estate – Common Interest Realty Associations (CIRA), Revenue Recognition, and requires the recognition of revenue when promised goods and services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods and services.

The Association adopted the requirements of the new guidance as of January 1, 2023, using the modified retrospective method of transition, which requires the cumulative effect of the changes related to the adoption be charged to the beginning balance. The Association applied the new guidance using the practical expedient in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liabilities related to the replacement fund, as previously described.

The adoption of the new revenue recognition guidance resulted in the following change to the fund balance as of January 1, 2023:

Fund balance, as previously reported, January 01, 2023	\$ 720,279
Adjustment	(694,430)
Fund balance, as adjusted, January 01, 2023	<u>\$ 25,849</u>

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**Sunland Division 17 Owners Association**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2023**

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The effect of the adoption is an increase on December 31, 2023, replacement fund assessments and a recording of a contract liability (assessments received in advance – replacement fund). The Association has no customer contract modifications that had an effect on the Association’s transition to the new guidance.

The modified retrospective method requires us to disclose the effect of applying the new guidance on each item included in our December 31, 2023, financial statements. Following are the line items from our financial statements as of December 31, 2023, that were affected, the amounts would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance.

	<b>As previously reported</b>	<b>Effect of Adoption</b>	<b>As Adjusted</b>
<b>Balance Sheet:</b>			
Contract liabilities (assessments received in advance - replacement fund)	\$ -	\$ 880,430	\$ 880,430
Ending fund balance	\$ 930,355	\$ (880,430)	\$ 49,925
<b>Statement of Revenues and Expenses and Changes in Fund Balances:</b>			
Regular assessments	\$ 511,535	\$ -	\$ 511,535
Excess (deficit) of revenues over (under) expenses	\$ 179,938	\$ -	\$ 179,938
<b>Statement of Cash Flows:</b>			
Excess (deficit) of revenues over (under) expenses	\$ 179,938	\$ -	\$ 179,938
Contract liabilities (assessments received in advance - replacement fund)	\$ -	\$ 186,000	\$ 186,000

**7. Prior Period Adjustment**

An adjustment has been recorded to remove the current year portion of insurance expenses totaling \$30,138 from the prior period. The correction has no effect on the results of the current year’s operations.

**Sunland Division 17 Owners Association**  
**Supplementary Information on Future Major Repairs and Replacements**  
**December 31, 2023**  
**(Unaudited)**

The Association's Board of Directors, in conjunction with a reserve study expert, conducted a reserve study dated May 03, 2023, 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 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 and replacement.

The following information is based on the study and presents significant information about the components of common property.

Study Component	Estimated remaining useful lives (years)	Estimated future replacement costs
Site and grounds	0-17	\$ 337,330
Buildings	0-54	6,728,400
		<u>\$ 7,065,730</u>
Interest rate		<u>1.00%</u>
Inflation rate		<u>3.00%</u>

See the Balance Sheet for replacement fund cash, cash equivalents and investments balances at December 31, 2023