

KINGSGATE HIGHLANDS,
DIVISIONS 3 AND 4 HOMES ASSOCIATION

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

TABLE OF CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITOR’S REPORT	1-2
FINANCIAL STATEMENTS:	
Statement of Assets, Liabilities, and Fund Balance – Modified Cash Basis	3
Statement of Revenues, Expenses, and Changes in Fund Balance – Modified Cash Basis ...	4
Notes to the Financial Statements.....	5-7



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C e r t i f i e d P u b l i c A c c o u n t a n t s

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members
Kingsgate Highlands, Divisions 3 and 4 Homes Association
Kirkland, Washington

We have audited the accompanying statement of assets, liabilities, and fund balance – modified cash basis of Kingsgate Highlands, Divisions 3 and 4 Homes Association as of December 31, 2017 and the related statement of revenues, expenses, and changes in fund balance – modified cash basis 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 the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles; 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.

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

Opinion

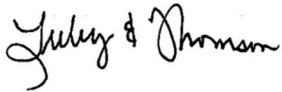
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kingsgate Highlands, Divisions 3 and 4 Homes Association as of December 31, 2017, and the results of its operations for the year then ended in accordance with the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles.

Basis of Accounting

As described in Note 1, these financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Omission of Required Supplementary Information

The Association has not estimated the remaining lives and replacement cost of common property and, therefore, has not presented supplementary information on future repairs and replacements that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements.

A handwritten signature in cursive script, appearing to read "Luby & Thomson".

Luby & Thomson, PLLC
Certified Public Accountants
February 28, 2020

KINGSGATE HIGHLANDS, DIVISIONS 3 AND 4 HOMES ASSOCIATION

STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCE - MODIFIED CASH BASIS
DECEMBER 31, 2017

ASSETS

	Operating Fund	Replacement Fund	Total
Cash and cash equivalents	\$ 46,586	\$ -	\$ 46,586
Cash and cash equivalents - reserves	-	27,813	27,813
Property and equipment, net	69,397	-	69,397
TOTAL ASSETS	<u>\$ 115,983</u>	<u>\$ 27,813</u>	<u>\$ 143,796</u>

LIABILITIES AND FUND BALANCE

Fund Balance	<u>\$ 115,983</u>	<u>\$ 27,813</u>	<u>\$ 143,796</u>
TOTAL FUND BALANCE	115,983	27,813	143,796
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 115,983</u>	<u>\$ 27,813</u>	<u>\$ 143,796</u>

The accompanying notes are an integral part of these financial statements.

KINGSGATE HIGHLANDS, DIVISIONS 3 AND 4 HOMES ASSOCIATION

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Operating Fund	Replacement Fund	Total
REVENUES			
Owners' dues	\$ 161,464	\$ -	\$ 161,464
Pool income	16,627	-	16,627
Other income	1,048	-	1,048
Interest income	7	22	29
TOTAL REVENUES	<u>179,146</u>	<u>22</u>	<u>179,168</u>
EXPENSES			
Payroll and related costs	65,648	-	65,648
Pool operations and maintenance	51,207	-	51,207
Utilities	25,975	-	25,975
Park maintenance	14,601	-	14,601
Insurance	9,717	-	9,717
Professional fees	7,610	-	7,610
Depreciation	5,665	-	5,665
Recreation	3,970	-	3,970
Other administrative expense	1,528	-	1,528
TOTAL EXPENSES	<u>185,921</u>	<u>-</u>	<u>185,921</u>
EXCESS OF REVENUES OVER EXPENSES	(6,775)	22	(6,753)
FUND BALANCE, BEGINNING	135,758	14,791	150,549
INTERFUND TRANSFERS	<u>(13,000)</u>	<u>13,000</u>	<u>-</u>
FUND BALANCE, YEAR END	<u>\$ 115,983</u>	<u>\$ 27,813</u>	<u>\$ 143,796</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Kingsgate Highlands, Divisions 3 and 4 Homes Association (the Association), a nonprofit corporation located in Kirkland, Washington, was created in December 1966 and is responsible for the operation and maintenance of the common property of Kingsgate Highlands, Divisions 3 and 4. The Association consists of 300 single family homes.

The Association's primary function is to maintain the common area structures and grounds. The Board of Directors formulates all policy decisions in accordance with the Declaration, the Covenants, Conditions and Restrictions (the CC&Rs), and the Articles of Incorporation. They are also responsible for the Bylaws and Rules and Regulations for the Association. The Board has the responsibility to ensure all the rules and regulations, as well as bylaws, are enforced.

A summary of the Association's significant accounting policies follows:

Basis of presentation

These financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Cash basis is modified to record fixed assets and associated depreciation expense.

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of assets, liabilities, and equity (modified cash basis) and the statement of revenues, expenses, and fund balances (modified cash basis) for the period. Actual results could differ significantly from those estimates.

Fund Accounting

The Association accounts for its financial resources and activities using fund reporting. Financial resources are classified into the following funds, according to their nature and purpose:

Operating Fund. Used to account for resources available for the normal maintenance and service operations of the Association.

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Cash and Cash Equivalents

The Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Association maintains its cash balances at financial institutions which are secured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. This limit was not exceeded at any time during the year ended December 31, 2017.

Property

Real property and common areas and related improvements to such property are not recorded on the Association's financial statements. Those properties are owned by the individual unit owners in common and not by the Association. Expenditures for improvements to such property are charged to expense in the period incurred.

Expenditures for equipment are capitalized at cost and depreciated on a straight-line basis over the estimated useful life of the underlying asset. Current capitalized equipment consists of park equipment and is being depreciated over 15 years.

Owners Dues

The annual budget and assessments of members are determined by the board of directors. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

Association members are subject to assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The Association has the authority to assess late charges and, if necessary, place liens on properties of homeowners whose assessments are delinquent.

Federal Income Taxes

The Association has not filed a federal income tax return since 2008. The Association intends to file Form 1120 under the provisions contained in Subchapter C of the Internal Revenue Code. The financial statements do not include any interest or penalties related to unfiled returns.

The Association's federal income tax returns remain open for examination to the extent prescribed by the Internal Revenue Code.

KINGSGATE HIGHLANDS, DIVISIONS 3 AND 4 HOMES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2017:

Playground equipment	\$ 84,976
Accumulated depreciation	(15,579)
	<u>\$ 69,397</u>

Depreciation expense was \$5,665 for the year ended December 31, 2017.

NOTE 3. RELATED PARTY TRANSACTIONS

The Association hired a homeowner for bookkeeping and other administrative duties. Payments to this homeowner totaled \$14,400 for the year ended December 31, 2017. Additionally, the Association paid \$3,000 to a Board Member for services performed in excess of normal board duties. These payments are included in payroll and related costs in the statement of revenues, expenses, and changes in fund balance – modified cash basis.

NOTE 4. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association is accumulating funds to be used for future major repairs and replacements. Accumulated funds, which aggregate \$27,813 at December 31, 2017, are generally not available for operating purposes.

The Association has not conducted a study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. The Association has created a replacement reserve fund based on the Board's estimates of future needs.

The amounts designated for future repairs and replacements may not be adequate to meet future needs. If additional funds are needed, the Association has the right, subject to member approval, to increase regular assessments, levy special assessments, or delay major repairs and replacements.

NOTE 5. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through the date these financial statements were available to be issued on February 28, 2020.

Subsequent to year end, the Association settled a dispute with the previous bookkeeper, who worked for the Association between 1993 and 2015. As a result of the settlement, the previous bookkeeper paid the association an amount in the low five figures. The settlement agreement restricts disclosure of the actual amount of the settlement payment.