

THE VILLAGE AT LAKE CHELAN OWNERS ASSOCIATION
INDEPENDENT AUDITOR'S REPORT
AND
AUDITED FINANCIAL STATEMENTS
FOR THE
YEAR ENDED DECEMBER 31, 2015
AND
UNAUDITED SUPPLEMENTARY INFORMATION

THE VILLAGE AT LAKE CHELAN OWNERS ASSOCIATION

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Jeffrey D. Webb
Certified Public Accountant P.S.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
The Village at Lake Chelan Owners Association

Report on Financial Statements

I have audited the accompanying financial statements of The Village at Lake Chelan Owners Association, which comprise the balance sheet as of December 31, 2015, 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the

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Certified Public Accountant P.S.

INDEPENDENT AUDITOR'S REPORT - CONTINUED

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

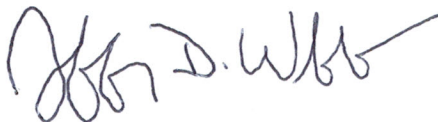
Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Village at Lake Chelan Owners Association as of December 31, 2015, and the results of its operations and its cash flows for the 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 Required Supplementary Information on Future Major Repairs and Replacements on pages 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 the basic financial statements in an appropriate operational, economic, or historical context. I 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 inquires of management about the methods of preparing and comparing the information for consistency with management's responses to my inquires, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Sincerely,



Jeffrey D. Webb, CPA PS
Chelan, Washington
November 8, 2017

THE VILLAGE AT LAKE CHELAN OWNERS ASSOCIATION
BALANCE SHEET
December 31, 2015

	<u>Operating Fund</u>	<u>Replacement Reserve Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash-Operating Fund	\$21,275	\$ -	\$21,275
Cash-Reserve Fund	-	221,123	221,123
Assessments Receivable	1,722	-	1,722
Allowance for Doubtful Accounts	(930)	-	(930)
Prepaid Expenses	<u>2,022</u>	<u>-</u>	<u>2,022</u>
Total Assets	<u>\$24,089</u>	<u>\$221,123</u>	<u>\$245,212</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Accounts Payable	\$4,050	\$ -	\$4,050
Income Tax Payable	54	-	54
Prepaid Assessments	<u>2,988</u>	<u>-</u>	<u>2,988</u>
Total Liabilities	7,092	-	7,092
Fund Balance	<u>16,997</u>	<u>221,123</u>	<u>238,120</u>
Total Liabilities & Fund Balance	<u>\$24,089</u>	<u>\$221,123</u>	<u>\$245,212</u>

THE VILLAGE AT LAKE CHELAN OWNERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND BALANCE
For the Year Ended December 31, 2015

	<u>Operating Fund</u>	<u>Replacement Reserve Fund</u>	<u>Total</u>
<u>REVENUES</u>			
Assessments Regular	\$71,200	\$ -	\$71,200
Other	2,055	-	2,055
Interest	-	278	278
Bad Debt Expense	(930)	-	(930)
TOTAL REVENUE	<u>72,325</u>	<u>278</u>	<u>72,603</u>
<u>EXPENSES</u>			
Utilities	5,191	-	5,191
Pool & Pool Supplies	5,072	-	5,072
Collection Expense	495	-	495
Landscaping and Grounds	30,507	-	30,507
Administration	7,200	-	7,200
Professional Services	3,935	-	3,935
Insurance	3,179	-	3,179
Repairs and Maintenance	3,978	-	3,978
Federal Income Tax	-	53	53
Grounds and Landscape	36,803	-	36,803
Office Expense	788	-	788
TOTAL EXPENSES	<u>97,148</u>	<u>53</u>	<u>97,201</u>
REVENUES OVER/(UNDER) EXPENSES	(24,823)	225	(24,598)
BEGINNING FUND BALANCE	27,185	235,533	262,718
Transfer to (from)	14,635	(14,635)	-
ENDING BALANCE	<u>\$16,997</u>	<u>\$221,123</u>	<u>\$238,120</u>

THE VILLAGE AT LAKE CHELAN OWNERS ASSOCIATION

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2015

	<u>Operating Fund</u>	<u>Replacement Reserve Fund</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING</u>			
<u>ACTIVITIES</u>			
REVENUE OVER/(UNDER) EXPENSES	(\$24,822)	\$225	(\$24,597)
Adjustments to reconcile excess of expenses over revenues to net cash provided by activities:			
(Increase) Decrease in:			
Assessments Receivable	(972)	-	(972)
Prepaid Insurance	(175)	-	(175)
Allowance for Doubtful Accounts	910		910
Increase (Decrease) in:			
Accounts Payable	3,835	-	3,835
Accrued Expenses	(2,000)	-	(2,000)
Income Tax Payable	(72)	-	(72)
Prepaid Assessments	81	-	81
	<u>(23,215)</u>	<u>225</u>	<u>(22,990)</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>			
<u>CASH FLOWS FROM</u>			
<u>FINANCING ACTIVITIES</u>			
Interfund transfers	<u>14,760</u>	<u>(14,760)</u>	<u>-</u>
<u>NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES</u>	<u>14,760</u>	<u>(14,760)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH & EQUIVALENTS	(8,455)	(14,535)	(22,990)
CASH & EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>29,730</u>	<u>235,659</u>	<u>265,389</u>
CASH & EQUIVALENTS AT END OF THE PERIOD	<u>\$21,275</u>	<u>\$221,124</u>	<u>\$242,399</u>

THE VILLAGE AT LAKE CHELAN OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE A - NATURE OF ORGANIZATION

The Village at Lake Chelan Owners Association is a statutory Homeowners' Association in the State of Washington organized and incorporated in 2006. The Association is responsible for the operation and maintenance of the common property of The Village at Lake Chelan Owners Association. The Village at Lake Chelan Owners Association consists of 107 residential units located in Manson, 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 December 31, 2015, 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.

THE VILLAGE AT LAKE CHELAN OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE C-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. If a homeowner does not pay by the 10th of the month, a \$20 fine is assessed. 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.

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 reported 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.

THE VILLAGE AT LAKE CHELAN OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE E-INCOME TAXES

Condominium associations may be taxed either as homeowners', associations or as regular corporations. In 2014, 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 December 31, 2015, the tax years that remain subject to examination by taxing authorities begin with 2012.

NOTE F-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 \$221,123 at December 31, 2015, are held in separate accounts and are generally not available for operating purposes. Cash balances shown on the balance sheet are part of these funds, are held in separate bank accounts.

The Association engaged a specialist who conducted a study in 2017 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.

THE VILLAGE AT LAKE CHELAN OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE G-ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2015:

	<u>Operating Fund</u>
Assessments	\$ 1,722
Allowance for Doubtful Accounts	<u>(930)</u>
	<u>\$ 792</u>

NOTE H-RELATED PARTIES

The Association pays two Board members \$300 per month each for management of the Association. Management fees for the year ending December 31, 2015 were \$7,200.

SUPPLEMENTARY INFORMATION

**THE VILLAGE AT LAKE CHELAN OWNERS ASSOCIATION
UNAUDITED SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS
December 31, 2015**

A specialist conducted a study in 2017 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 HAD NOT BEEN AUDITED APPEARS ON PAGE 11