

**Cape George Colony Club
Financial Statements
For the Year Ended December 31, 2019**



NEWMAN
Certified Public Accountant, PC

**Cape George Colony Club
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For the Year Ended December 31, 2019**

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Independent Auditor's Report

To the Board of Directors of Cape George Colony Club

We have audited the accompanying financial statements of Cape George Colony Club (the "Association") which comprise the balance sheet as of December 31, 2019, 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

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 Cape George Colony Club as of December 31, 2019, and 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.

Emphasis of a Matter on Future Major Repairs and Replacements

Our audit was made for the purpose of forming an opinion on the basic financial statement, taken as a whole. We have not applied procedures to determine whether the funds designated for future repairs and replacements as discussed in Note 3 are adequate to meet such future costs, because such determination is outside the scope of our audit. Our opinion is not modified with respect to this matter.

Disclaimer of Opinion of Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Supplementary Information on Future Repairs and Replacements on page 12 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. We 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Newman Certified Public Accountant, PC.

Newman Certified Public Accountant, PC
Bellevue, Washington
June 03, 2020

Cape George Colony Club
Balance Sheet
December 31, 2019

	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalents	\$ 275,695	\$ 62,410	\$ 338,105
Investments		1,025,000	1,025,000
Assessments receivable	4,686	1,358	6,044
Allowance for doubtful accounts	(3,583)	(1,121)	(4,704)
Interest receivable		3,094	3,094
Prepaid insurance	23,120		23,120
Fixed assets	3,950,221		3,950,221
Accumulated depreciation	(2,262,343)		(2,262,343)
Total assets	\$ 1,987,796	\$ 1,090,741	\$ 3,078,537
Liabilities			
Accounts payable	\$ 23,646	\$ -	\$ 23,646
Accrued payroll and related expenses	8,353		8,353
Prepaid assessments	69,760		69,760
Income taxes payable	2,570		2,570
Deposits	2,265		2,265
Contract liabilities (Assessments received in advance - replacement fund)		1,086,484	1,086,484
Total liabilities	106,594	1,086,484	1,193,078
Fund balances	1,881,202	4,257	1,885,459
Total liabilities and fund balances	\$ 1,987,796	\$ 1,090,741	\$ 3,078,537

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

Cape George Colony Club
Statement of Revenue and Expenses and Changes in Fund Balances
For the Year Ended December 31, 2019

	Operating Fund	Replacement Fund	Total
Revenues			
Owners assessments	\$ 306,921	\$ -	\$ 306,921
Rental income	1,195		1,195
Water use fees	190,820		190,820
Marina Fees	22,842		22,842
Moorage Fees	55,959		55,959
Late fees	2,265		2,265
Interest	275	5,340	5,615
Other member income	26,380		26,380
Total revenues	<u>606,657</u>	<u>5,340</u>	<u>611,997</u>
Expenses			
Utilities			
Utilities	52,022		52,022
Telephone	5,250		5,250
	<u>57,272</u>	<u>-</u>	<u>57,272</u>
Maintenance			
Landscape and irrigation	37,337		37,337
Common area repairs and maintenance	13,557		13,557
Pool and spa	4,821		4,821
Janitorial	8,817		8,817
Building maintenance and repair	1,180		1,180
Dock Structure	3,090		3,090
Equipment	17,977		17,977
Road maintenance	888		888
	<u>87,667</u>	<u>-</u>	<u>87,667</u>
Administrative			
Insurance	46,364		46,364
Administrative expense	32,644	1,083	33,727
Depreciation expense	116,197		116,197
Payroll and related expenses	247,312		247,312
Legal and professional	60,953		60,953
Licenses, permits, fees and taxes	12,943		12,943
Federal taxes	2,570		2,570
Bad debt expense	2,887		2,887
	<u>521,870</u>	<u>1,083</u>	<u>522,953</u>
Total expenses	<u>666,809</u>	<u>1,083</u>	<u>667,892</u>
Excess (deficit) of revenues over (under) expenses	(60,152)	4,257	(55,895)
Beginning fund balances	1,914,775	-	1,914,775
Transfer to/from contract liabilities	26,579		26,579
Ending fund balances	<u>\$ 1,881,202</u>	<u>\$ 4,257</u>	<u>\$ 1,885,459</u>

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

Cape George Colony Club
Statement of Cash Flows
For the Year Ended December 31, 2019

	Operating Fund	Replacement Fund	Total
Excess of revenues over expenses	\$ (60,152)	\$ 4,257	\$ (55,895)
Adjustments to reconcile excess (deficit) of revenues over (under) expenses to net cash provided (used) by operating activities			
Depreciation	116,197	-	116,197
Decrease (Increase) in operating assets:			
Assessments receivable	(2,991)	(1,099)	(4,090)
Allowance for doubtful accounts	2,139	895	3,034
Interest receivable		(3,094)	(3,094)
Prepaid insurance	(1,941)		(1,941)
Increase (decrease) in operating liabilities:			
Accounts payable	14,306		14,306
Accrued payroll and related expenses	(461)		(461)
Prepaid assessments	(8,124)	(14,774)	(22,898)
Deposits	(1,880)		(1,880)
Income taxes payable	1,150		1,150
Contract liabilities (Assessments received in advance - replacement fund)		102,031	102,031
Total adjustments	118,395	83,959	202,354
Net cash provided (used) by operating activities	<u>58,243</u>	<u>88,216</u>	<u>146,459</u>
Cash provided (used) by investing activities			
Change in investments		(1,025,000)	(1,025,000)
Fixed assets	(24,822)		(24,822)
Net cash provided (used) by investing activities	<u>(24,822)</u>	<u>(1,025,000)</u>	<u>(1,049,822)</u>
Cash provided (used) by financing activities			
Transfer to contract liabilities	26,579		26,579
Interfund borrowings	7,740	(7,740)	-
Net cash provided (used) by financing activities	<u>34,319</u>	<u>(7,740)</u>	<u>26,579</u>
Net increase (decrease) in cash and cash equivalents	67,740	(944,524)	(876,784)
Beginning cash and cash equivalents	207,955	1,006,934	1,214,889
Ending cash and cash equivalents	<u>\$ 275,695</u>	<u>\$ 62,410</u>	<u>\$ 338,105</u>
SUPPLEMENTAL DISCLOSURE			
Income taxes paid			\$ -
Interest paid			\$ -

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

Cape George Colony Club
Notes to Financial Statements
For the Year Ended December 31, 2019

1. Organization

Cape George Colony Club (the "Association") was incorporated on June 14, 1967 as a nonprofit corporation under the laws of Washington, for the purposes of maintaining and preserving common property. The Association consists of 662 lots containing 520 residential homes and moorage slips for 80 boats and is located in Port Townsend, Washington.

2. 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 revenues 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

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 homeowners 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 variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. After the Board of Directors has exhausted all efforts to collect delinquent accounts, the Board of Directors may elect to write off uncollectible balances.

The Association recorded an allowance for doubtful accounts of \$3,583 to reflect an estimate of accounts that may not be collectible, which includes accounts receivable greater than 90 days old.

Contract Liabilities (Assessments received in advance - replacement fund)

The Association recognizes revenue from members as the 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.

Cape George Colony Club
Notes to Financial Statements
For the Year Ended December 31, 2019

Income Tax

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

Capital Assets and Depreciation Policy

The Association has not capitalized real and personal common area property contributed by the developer. Replacements and improvements to real property are also not capitalized; rather, they are charged to the respective fund in the period the cost is incurred. Significant personal property assets are capitalized and depreciated over their estimated lives using straight-line depreciation.

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.

Subsequent Events

Subsequent events have been evaluated through June 03, 2020, which is the date the financial statements were available to be issued.

3. 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 expenditures for normal operations.

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 its governing documents, to increase regular assessments or to levy special assessments, or it may delay major repairs and replacements until funds are available.

Cape George Colony Club
Notes to Financial Statements
For the Year Ended December 31, 2019

4.FASB ASC 606 New Accounting Guidance Implementation

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (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 01, 2019, 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 01, 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 01, 2019:

Fund balance, as previously reported, January 01, 2019	\$	2,899,228
Adjustment		<u>(984,453)</u>
Fund balance, as adjusted, January 01, 2019	\$	<u>1,914,775</u>

The effect of the adoption is a decrease in December 31, 2019 replacement fund assessments and a recording of a contract liability (assessments received in advance - replacement fund) at 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, 2019 financial statements. Following are the line items from our balance sheet as of December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance:

	<u>Amounts that would have been reported</u>	<u>Effects of applying new guidance</u>	<u>As reported</u>
Liabilities:			
Contract liabilities (Assessments received in advance - replacement reserve)	\$ -	\$ 1,086,484	\$ 1,086,484
Total liabilities	-	1,086,484	1,086,484
Fund Balance:			
Ending fund balance	\$ 2,945,364	\$ (1,086,484)	\$ 1,885,459

Cape George Colony Club
Notes to Financial Statements
For the Year Ended December 31, 2019

The following are the line items from the statement of revenues, expenses, and changes in fund balances and the statement of cash flows for the year ended December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the amounts reported under the new guidance:

	<u>Amounts that would have been reported</u>	<u>Effects of applying new guidance</u>	<u>As reported</u>
Revenue:			
Regular assessments	\$ 433,406	\$ (126,485)	\$ 306,921
Excess of revenues over expenses	\$ 70,590	\$ (126,485)	\$ (55,895)
Cash Flows:			
Excess of revenues over expenses	\$ 70,590	\$ (126,485)	\$ (55,895)
Increase in contract liabilities (Assessments received in advance -replacement reserves)	\$ -	\$ 126,485	\$ 126,485

5. Income Taxes

The Association elected to file its federal income tax returns as a homeowners association under Internal Revenue Code Section 528. The Association is generally taxed on income not related to membership dues and assessments, such as interest income and non-member income. The Internal Revenue Service can examine the Association's income tax returns generally up to three years.

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 Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Cape George Colony Club
Notes to Financial Statements
December 31, 2019

6. Fixed Assets

Fixed Assets are broken-down by the following groups:

Land	\$30,222
Land Improvements	\$68,129
Buildings – General	\$818,061
Equipment/Vehicles	\$116,774
Water System Improvements	\$1,064,415
Roads	\$1,103,196
Marina Improvements	\$738,628
Construction in Progress	<u>\$10,796</u>
Accumulated Depreciation	<u>\$2,262,343</u>
Total	<u>\$1,687,878</u>

Cape George Colony Club
Supplementary Information on Future Major Repairs and Replacements
December 31, 2019
(Unaudited)

The Association's board of directors, in conjunction with a reserve study expert, conducted a reserve study dated October 1, 2018 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	Estimated current replacement costs
Chain link fence	16	\$ 13,360
Building major repair	1	6,120
Shingle roof	4	3,320
Roll up door	7	3,070
Well house metal doors	7	3,380
Vehicles	2-8	35,000
Diesel fuel storage tank	13	4,300
Diesel generator	14	13,630
Water filter system	3-10	56,960
Water meters	10-29	189,470
Booster pumps	2	8,690
Well control panel	13	3,780
Wells	6-29	142,880
Water storage tanks	6-29	214,720
Pumps	5-18	55,830
Water system delivery pipes	17-27	2,593,230
		<u>\$ 3,347,740</u>

See the Balance Sheet for replacement fund cash, cash equivalents and investments balances at December 31, 2019.