

Paradise Lakes Country Club

Financial Statements and
Supplementary Information with
Independent Accountant's Review Report

Years Ended December 31, 2019 and 2018

Larson Gross

Paradise Lakes Country Club

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Independent Accountant's Review Report

To the Board of Directors and Association Members
Paradise Lakes Country Club
Maple Falls, Washington

We have reviewed the accompanying financial statements of Paradise Lakes Country Club (the Club), which comprise the balance sheets as of December 31, 2019 and 2018, the related statements of revenues, expenses, and changes in fund balances and cash flows for the years 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 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 engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. 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.

Accountant's Conclusion

Based on our reviews, 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

The accompanying supplementary information on future major repairs and replacements on page 10 is presented for purposes of additional analysis and is a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the review procedures applied in our review of the basic financial statements.

We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion on such information.

Larson Gross PLLC

Bellingham, Washington

June 12, 2020

Paradise Lakes Country Club

Balance Sheets

December 31, 2019 and 2018

(See Independent Accountant's Review Report)

| | 2019 | | | 2018 | | |
|--|-------------------|-------------------|--------------------|-------------------|-------------------|-------------------|
| | Operating Fund | Replacement Fund | Total | Operating Fund | Replacement Fund | Total |
| Assets | | | | | | |
| Assets | | | | | | |
| Cash and cash equivalents | \$ 191,075 | \$ 317,399 | \$ 508,474 | \$ 203,656 | 261,145 | \$ 464,801 |
| Dues and assessments receivable | 12,203 | - | 12,203 | 5,267 | - | 5,267 |
| Other receivables | 21,521 | - | 21,521 | 19,758 | - | 19,758 |
| Interfund receivable (payable) | 34,868 | (34,868) | - | 34,346 | (34,346) | - |
| Property and equipment, net | 440,323 | - | 440,323 | 477,649 | - | 477,649 |
| Land inventory | 30,051 | - | 30,051 | 30,051 | - | 30,051 |
| Total assets | <u>\$ 730,041</u> | <u>\$ 282,531</u> | <u>\$1,012,572</u> | <u>\$ 770,727</u> | <u>\$ 226,799</u> | <u>\$ 997,526</u> |
| Liabilities and Fund Balances | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 14,599 | \$ - | \$ 14,599 | \$ 7,989 | \$ - | \$ 7,989 |
| Accrued expenses | 9,136 | - | 9,136 | 8,805 | - | 8,805 |
| Contract liabilities | 7,085 | - | 7,085 | 7,674 | - | 7,674 |
| Total liabilities | 30,820 | - | 30,820 | 24,468 | - | 24,468 |
| Fund balances | <u>699,221</u> | <u>282,531</u> | <u>981,752</u> | <u>746,259</u> | <u>226,799</u> | <u>973,058</u> |
| Total liabilities and fund balances | <u>\$ 730,041</u> | <u>\$ 282,531</u> | <u>\$1,012,572</u> | <u>\$ 770,727</u> | <u>\$ 226,799</u> | <u>\$ 997,526</u> |

Paradise Lakes Country Club

Statements of Revenues, Expenses, and Changes in Fund Balances

Years Ended December 31, 2019 and 2018

(See Independent Accountant's Review Report)

| | 2019 | | | 2018 | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Operating Fund | Replacement Fund | Total | Operating Fund | Replacement Fund | Total |
| Revenues | | | | | | |
| Member dues | \$ 397,475 | \$ - | \$ 397,475 | \$ 419,925 | \$ - | \$ 419,925 |
| Assessments | - | 54,925 | 54,925 | - | 32,475 | 32,475 |
| Other income, net | 26,067 | - | 26,067 | 15,536 | - | 15,536 |
| Firewise protection grant income | - | - | - | 15,000 | - | 15,000 |
| Gain on sale of lots | 2,600 | - | 2,600 | 9,589 | - | 9,589 |
| Interest income | 695 | 1,328 | 2,023 | 288 | 646 | 934 |
| Total revenues | 426,837 | 56,253 | 483,090 | 460,338 | 33,121 | 493,459 |
| Expenses | | | | | | |
| Labor and benefits | 158,838 | - | 158,838 | 155,159 | - | 155,159 |
| Repairs and maintenance | 84,559 | - | 84,559 | 51,962 | - | 51,962 |
| Utilities and fuel | 50,251 | - | 50,251 | 57,944 | - | 57,944 |
| Depreciation | 37,326 | - | 37,326 | 54,450 | - | 54,450 |
| Outside services | 37,204 | - | 37,204 | 32,735 | - | 32,735 |
| Office expense | 19,821 | - | 19,821 | 18,256 | - | 18,256 |
| Supplies | 19,580 | - | 19,580 | 12,595 | - | 12,595 |
| Insurance | 15,074 | - | 15,074 | 15,069 | - | 15,069 |
| Professional fees | 13,779 | - | 13,779 | 21,689 | - | 21,689 |
| Security | 13,712 | - | 13,712 | 5,603 | - | 5,603 |
| Landscaping | 10,473 | - | 10,473 | 3,499 | - | 3,499 |
| Internet and telephone | 6,378 | - | 6,378 | 7,395 | - | 7,395 |
| Tax and licenses | 3,135 | - | 3,135 | 2,971 | - | 2,971 |
| Miscellaneous | 2,166 | - | 2,166 | 1,031 | - | 1,031 |
| Other employee costs | 1,579 | - | 1,579 | 1,591 | - | 1,591 |
| Infrastructure and maintenance services | - | 521 | 521 | - | 1,119 | 1,119 |
| Bad debt expense | - | - | - | 1,470 | - | 1,470 |
| Total expenses | 473,875 | 521 | 474,396 | 443,419 | 1,119 | 444,538 |
| Excess (deficit) of revenues over expenses | (47,038) | 55,732 | 8,694 | 16,919 | 32,002 | 48,921 |
| Fund balances – beginning of year | 746,259 | 226,799 | 973,058 | 729,340 | 194,797 | 924,137 |
| Fund balances – end of year | <u>\$ 699,221</u> | <u>\$ 282,531</u> | <u>\$ 981,752</u> | <u>\$ 746,259</u> | <u>\$ 226,799</u> | <u>\$ 973,058</u> |

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

Paradise Lakes Country Club

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

(See Independent Accountant's Review Report)

| | 2019 | | | 2018 | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Operating Fund | Replacement Fund | Total | Operating Fund | Replacement Fund | Total |
| Cash flows from operating activities | | | | | | |
| Excess (deficit) of revenues over expenses | \$ (47,038) | \$ 55,732 | \$ 8,694 | \$ 16,919 | \$ 32,002 | \$ 48,921 |
| Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided (used) by operating activities: | | | | | | |
| Depreciation | 37,326 | - | 37,326 | 54,450 | - | 54,450 |
| (Increase) decrease in assets: | | | | | | |
| Dues and assessments receivable | (6,936) | - | (6,936) | 3,328 | - | 3,328 |
| Other receivables | (1,763) | - | (1,763) | 4,308 | - | 4,308 |
| Interfund receivable (payable) | (522) | 522 | - | (59,243) | 59,243 | - |
| Increase (decrease) in liabilities: | | | | | | |
| Accounts payable | 6,610 | - | 6,610 | (18,448) | - | (18,448) |
| Accrued expenses | 331 | - | 331 | 1,008 | - | 1,008 |
| Contract liabilities | (589) | - | (589) | (6,372) | - | (6,372) |
| Net cash provided (used) by operating activities | (12,581) | 56,254 | 43,673 | (4,050) | 91,245 | 87,195 |
| Cash flows from investing activities | | | | | | |
| Purchase of property and equipment | - | - | - | (14,793) | - | (14,793) |
| Net cash used in investing activities | - | - | - | (14,793) | - | (14,793) |
| Net increase (decrease) in cash and cash equivalents | (12,581) | 56,254 | 43,673 | (18,843) | 91,245 | 72,402 |
| Cash and cash equivalents – beginning of year | 203,656 | 261,145 | 464,801 | 222,499 | 169,900 | 392,399 |
| Cash and cash equivalents – end of year | \$ 191,075 | \$ 317,399 | \$ 508,474 | \$ 203,656 | \$ 261,145 | \$ 464,801 |

Paradise Lakes Country Club

Notes to Financial Statements

December 31, 2019 and 2018

(See Independent Accountant's Review Report)

Note 1 – Organization and Operations

Paradise Lakes Country Club (the Club) is a homeowners' association incorporated in June 1968 in the State of Washington. The Club maintains a camping residential development consisting of 325 individually owned lots. The Club is responsible for the operation and maintenance of the common property within the development. The Club provides recreational facilities for members, including an indoor pool, games and media room and a commercial kitchen.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation – The accounting records are maintained on the accrual basis.

Fund accounting – The Club uses fund accounting whereby financial resources, such as operating funds and funds designated for infrastructure, 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 financial resources available for the general operations of the Club.

Replacement fund – This fund is used to account for financial resources designated for major repairs and replacements and capital improvement. Expenditures from this fund must receive approval by the Board of Directors.

Cash and cash equivalents – Cash, checking accounts, and money market accounts are considered to be cash equivalents. The Club maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. The Club has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Dues and assessments receivable – Receivables consist of dues and assessments receivable. Club members are subject to quarterly assessments to provide funds for the Club's operating expenses, future capital acquisitions, and major repairs and replacements. Dues and assessments receivable are stated at the amounts expected to be collected from outstanding assessments from unit owners. No allowance for uncollectible accounts is deemed necessary. On a continuing basis, the Club analyzes delinquent receivables and, once these receivables are determined to be uncollectible, they are written off to bad debt expense. Assessments receivable totaled \$12,203 and \$5,267 at December 31, 2019 and 2018, respectively.

Property and equipment – The Club's assets consist of approximately 80 acres of land, a common hall with kitchen, swimming pool, gazebo, playground, office, and maintenance shop. Capitalized improvements to the common assets, property, and equipment are recorded at cost. Additions, improvements, and expenditures that exceed \$2,500 and add materially to the productive capacity or extend the life of an asset are capitalized. Expenditures for repair and maintenance are expensed as incurred. Depreciation is recorded using straight-line and accelerated methods over expected useful lives of 5 to 39 years.

Paradise Lakes Country Club

Notes to Financial Statements

December 31, 2019 and 2018

(See Independent Accountant's Review Report)

Note 2 – Summary of Significant Accounting Policies - (Continued)

Contract liabilities – A contract liability is recorded when the Club has received payment in advance of the satisfaction of performance obligations related to operating and replacement reserve assessments. Contract liabilities totaled \$7,085, \$7,674, and \$14,046 as of the December 31, 2019, 2018, and 2017, respectively.

Federal income tax – The Club is taxed as a regular corporation, subject to the provisions of Internal Revenue Code Section 277. As such, income from members is segregated from income derived from non-members and both are taxed at regular corporate rates. However, taxation of the excess of membership income over membership expenses can be deferred for one year if certain elections are made. Any net membership losses may only be carried forward to offset membership income of future tax periods.

The Club may carry forward any net operating losses to reduce future taxable income. The Club generated a tax loss of \$47,038 for the year ended December 31, 2019. The Club generated taxable income of \$16,919 during the year ended December 31, 2018, which was offset by a net operating loss carryforward. The Club had a net operating loss carryforward of approximately \$477,000 and \$430,000 as of December 31, 2019 and 2018, respectively. The net operating loss can be carried forward indefinitely if not previously used. As of December 31, 2019, tax returns for the prior three fiscal years remain subject to examination by major tax jurisdictions.

The net operating loss carryforward disclosed above could provide a deferred tax asset of approximately \$100,000 and \$90,000 using a marginal tax rate of 21% in 2019 and 2018. However, due to uncertainties in the future taxable income of the Club, the amount has been fully reserved with a valuation allowance.

Revenue recognition – The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the ASC. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The Club applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Other than presenting contract liabilities separate from accounts payable, adoption of the new guidance resulted in no changes to revenues, expenses, fund balances, or any other financial statement line item as a result of adopting ASC 606.

The Club invoices dues and assessment quarterly with revenue recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. Income from member dues and assessments totaled approximately 94% and 92% of total revenues for the years ended December 31, 2019 and 2018, respectively. The Club's performance obligations related to its dues and assessments are satisfied over time.

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

Paradise Lakes Country Club

Notes to Financial Statements

December 31, 2019 and 2018

(See Independent Accountant's Review Report)

Note 2 – Summary of Significant Accounting Policies - (Continued)

Use of estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 reporting period. Actual results could differ from those estimates

Subsequent events – In preparing these financial statements, the Club has evaluated events and transactions for potential recognition or disclosure through June 12, 2020 the date the financial statements were available to be issued.

Note 3 – Cash and Cash Equivalents

Cash and cash equivalents consist of the following at December 31:

| | 2019 | | | 2018 | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Operating Funds | Replacement Funds | Total | Operating Funds | Replacement Funds | Total |
| Cash on hand (petty cash and undeposited funds) | \$ 5,982 | \$ - | \$ 5,982 | \$ 5,252 | \$ - | \$ 5,252 |
| Cash in checking | 31,852 | - | 31,852 | 45,857 | - | 45,857 |
| Capital reserves, MM accounts and savings | <u>153,241</u> | <u>317,399</u> | <u>470,640</u> | <u>152,547</u> | <u>261,145</u> | <u>413,692</u> |
| | <u>\$ 191,075</u> | <u>\$ 317,399</u> | <u>\$ 508,474</u> | <u>\$ 203,656</u> | <u>\$ 261,145</u> | <u>\$ 464,801</u> |

Note 4 – Property and Equipment

Property and equipment include the following at December 31:

| | 2019 | 2018 |
|-------------------------------|--------------------|--------------------|
| Building and improvements | \$ 989,379 | \$ 1,008,181 |
| Infrastructure | 414,984 | 414,984 |
| Equipment | 227,886 | 256,701 |
| Furniture and fixtures | 8,447 | 14,793 |
| Other assets | <u>907</u> | <u>907</u> |
| | 1,641,603 | 1,695,566 |
| Less accumulated depreciation | <u>(1,201,280)</u> | <u>(1,217,917)</u> |
| | <u>\$ 440,323</u> | <u>\$ 477,649</u> |

Depreciation expense totaled \$37,326 and \$54,450 for the years ended December 31, 2019 and 2018, respectively.

Paradise Lakes Country Club

Notes to Financial Statements

December 31, 2019 and 2018

(See Independent Accountant's Review Report)

Note 5 – Future Major Repairs and Replacements

The Club's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$282,531 and \$226,799 at December 31, 2019 and 2018, respectively, are held in separate accounts and can be used as an interfund receivable or payable for operating purposes.

An internal study was done in 2014 to estimate the remaining useful lives and the replacement costs of the common property components. The study was last updated in May of 2014. The Club 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 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 Club has the right, subject to Board approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

Note 6 – Subsequent Event

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Club operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Club, it is reasonably possible that the Club is vulnerable to the risk of a near-term severe impact.

Supplementary Information

Paradise Lakes Country Club

Schedule of Future Major Repairs and Replacements

Year Ended December 31, 2019

(See Independent Accountant's Review Report)

The Club conducted an internal study in 2014 to estimate the remaining useful lives and replacement costs of several property components. The estimated future replacement costs are based on estimated costs at December 31, 2019 and include the effects of inflation and interest rates at three percent annually over the next thirty years from that date.

The following tables are based on the study and its analysis by the management of the Club and presents significant information about the components of common property as of December 31, 2019 and 2018. (Amounts are generally rounded).

| Components | Remaining Useful Lives | Estimated Replacement Costs at December 31, 2019 | Components of Fund Balance at December 31, 2018 | | Year Ended December 31, 2019 | | | Components of Fund Balance at December 31, 2019 |
|------------------------------|------------------------|--|---|------------------|------------------------------|-----------------------------------|-------------------|---|
| | | | Assessments | Interest Income | Expenses | Fund Balance at December 31, 2019 | | |
| Site | 0-35 | \$ 2,644,603 | \$ 183,187 | \$ 43,807 | \$ 1,060 | \$ - | \$ 228,054 | |
| Amenities | 0-11 | 228,535 | 11,728 | 3,786 | 92 | (521) | 15,085 | |
| Roofing | 40 | 140,400 | 10,112 | 2,326 | 56 | - | 12,494 | |
| Common Interior Finishes | 0-15 | 113,400 | 8,167 | 1,878 | 45 | - | 10,090 | |
| Electrical Systems | 0-1 | 60,000 | 4,322 | 994 | 24 | - | 5,340 | |
| Plumbing Systems | 0-15 | 53,600 | 3,860 | 888 | 21 | - | 4,769 | |
| HVAC Systems | 0-13 | 44,500 | 3,205 | 737 | 18 | - | 3,960 | |
| Structure | 0-1 | 12,000 | 862 | 198 | 5 | - | 1,065 | |
| Fire Detection & Suppression | 8 | 11,000 | 793 | 182 | 4 | - | 979 | |
| Miscellaneous Mechanical | 1 | 7,800 | 563 | 129 | 3 | - | 695 | |
| | | <u>\$ 3,315,838</u> | <u>\$ 226,799</u> | <u>\$ 54,925</u> | <u>\$ 1,328</u> | <u>\$ (521)</u> | <u>\$ 282,531</u> | |