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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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To the Board of Directors of
Kingsgate Highlands, Divisions 3 and 4
Homes Association
11913 Northeast 142nd Place,
Kirkland, Washington 98034

In planning and performing our audit of the financial statements of Kingsgate Highlands, Divisions 3 and 4 Homes Association (the Association) as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Association's internal control to be significant deficiencies:

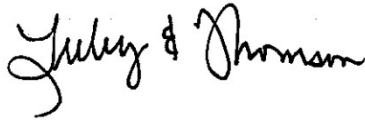
- Timely filing of tax returns - the Association should prepare, or cause to be prepared, required tax returns in a timely manner. Additionally, the Association should file the returns that are currently outstanding (2009 to present). Tax compliance issues could cause significant issues for the Association, including risk of penalties.

During our audit, we also became aware of the following deficiencies in internal control, other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiency:

- Documentation of review - we noted the Association requires the Treasurer to review invoices prior to sending the invoice to the Bookkeeper for payment. We recommend documenting this review and approval by having the Treasurer initial or sign the invoice prior to payment. Alternatively, this approval could be documented via emails from the Treasurer. Without documentation of approval, it is possible for invoices to bypass this approval without being detected.

- Reserve study - the State of Washington requires most homeowners associations to obtain reserve studies completed by a reserve study professional. No such study has been obtained by the Association. The Association should obtain a reserve study, or adequately document why the Board believes the Association is exempt.
 - For additional information, please see RCW 64.38.065 and RCW 64.38.090, as published by the State of Washington.
- Annual budget dinner - the dinner during December 2016 cost \$1,721, or \$143 per person in attendance. While this type of transaction is not prohibited, the State of Washington requires Boards to serve in good faith, in a manner such director believes to be in the best interests of the Association (RCW 24.03.127, as referenced in RCW 64.38.025). Additionally, the Association's bylaws state that no trustee shall receive compensation, unless hired as a contractor for non-board responsibilities. We recommend being more conservative with these dinners in order to avoid the appearance of impropriety.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Association, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Luby & Thomson". The signature is written in a cursive, flowing style.

Luby and Thomson, PLLC
Seattle, Washington
December 15, 2018