

LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.

INDEPENDENT AUDITOR'S REPORT

AND

AUDITED FINANCIAL STATEMENTS

FOR THE

YEAR ENDED DECEMBER 31, 2020

AND

UNAUDITED SUPPLEMENTARY INFORMATION

LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.

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Joseph H. Vandal, CPA, PS

Member of American Institute of CPAs, Washington Society of CPAs
A Professional Service Corporation

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
Lummi Island Scenic Estates Community Club, Inc.

We have audited the accompanying financial statements of Lummi Island Scenic Estates Community Club, Inc., which comprise the balance sheet as of December 31, 2020, 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.

INDEPENDENT AUDITOR'S REPORT--Continued

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

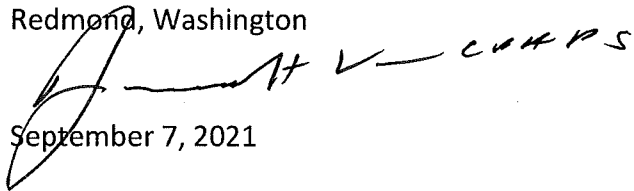
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lummi Island Scenic Estates Community Club, Inc. as of December 31, 2020, and the results of its operations and its cash flows for 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 information on future major repairs and replacements on common property on page 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 basic financial statements in an appropriate operational, economic, or historical context. We 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 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.

Joseph H. Vandal, CPA PS
Redmond, Washington



September 7, 2021

LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.
BALANCE SHEET
December 31, 2020

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash-Checking	\$ 159,439	\$ -	\$ 159,439
Cash-Replacement Reserve	-	55,166	55,166
Certificates of Deposit	-	338,544	338,544
Assessments Receivable	244,439	-	244,439
Allowance for Doubtful Accounts	(243,827)	-	(243,827)
Other Prepaid Expenses	2,636	-	2,636
Prepaid Insurance	10,127	-	10,127
Fixed Assets	1,369,291	-	1,369,291
Accumulated Depreciation	<u>(696,004)</u>	<u>-</u>	<u>(696,004)</u>
 Total Assets	 <u>\$ 846,101</u>	 <u>\$ 393,710</u>	 <u>\$ 1,239,811</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
Accounts Payable	\$ 1,272	\$ -	\$ 1,272
Payroll Liabilities	7,351	-	7,351
Visa Payable	263	-	263
DWSRF Loan Payable	193,773	-	193,773
Prepaid Assessments	<u>46,561</u>	<u>-</u>	<u>46,561</u>
 Total Liabilities	 249,220	 -	 249,220
 Fund Balance	 <u>596,881</u>	 <u>393,710</u>	 <u>990,591</u>
 Total Liabilities & Fund Balance	 <u>\$ 846,101</u>	 <u>\$ 393,710</u>	 <u>\$ 1,239,811</u>

LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND BALANCE
For the Year Ended December 31, 2020

	OPERATING FUND	REPLACEMENT RESERVE FUND	TOTAL
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Assessments			
Regular	\$ 239,275	\$ 50,000	\$ 289,275
Water Fees	69,110	-	69,110
DWSRF Loan Fees	28,329	-	28,329
Other	23,868	-	23,868
Interest	-	7,294	7,294
TOTAL REVENUE	<u>360,582</u>	<u>57,294</u>	<u>417,876</u>
EXPENSES			
Accounting/Bookkeeping	5,400	-	5,400
Administration	7,878	-	7,878
Professional Services	5	-	5
Licenses and Permits	10	-	10
State Taxes	11,703		11,703
Insurance	36,125	-	36,125
Payroll Expense	140,680		140,680
Repairs and Maintenance	21,068	-	21,068
Water System	37,484	-	37,484
Utilities	13,612	-	13,612
Depreciation	42,061		42,061
Bad Debt	42,835	-	42,835
Interest Expense	-	3,283	3,283
Reserve Study	-	990	990
TOTAL EXPENSES	<u>358,861</u>	<u>4,273</u>	<u>363,134</u>
REVENUES OVER/(UNDER) EXPENSES	1,721	53,021	54,742
BEGINNING FUND BALANCE	514,421	421,428	935,849
Transfer to (from)	<u>80,739</u>	<u>(80,739)</u>	<u>-</u>
ENDING BALANCE	<u>\$ 596,881</u>	<u>\$ 393,710</u>	<u>\$ 990,591</u>

LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2020

	OPERATING FUND	REPLACEMENT RESERVE FUND	TOTAL
<u>CASH FLOWS FROM OPERATING</u>			
<u>ACTIVITIES</u>			
REVENUE OVER/(UNDER) EXPENSES	\$ 1,721	\$ 53,021	\$ 54,742
Adjustments to reconcile excess of expenses over revenues to net cash provided by activities:			
Accumulated Depreciation	40,149	-	40,149
(Increase) Decrease in:			
Assessments Receivable	19,127	-	19,127
Prepaid Income Tax	(2,636)	-	(2,636)
Prepaid Insurance	11,431	-	11,431
Increase (Decrease) in:			
Accounts Payable	(5,033)	-	(5,033)
Visa Payable	(1,795)	-	(1,795)
Payroll Liabilities	(8,631)	-	(8,631)
Prepaid Assessments	37,352	-	37,352
<u>NET CASH PROVIDED BY</u> <u>OPERATING ACTIVITIES</u>	91,685	53,021	144,706
<u>CASH FLOWS FROM</u>			
<u>FINANCING ACTIVITIES</u>			
DWSRF Loan Payable	(25,117)	-	(25,117)
Fixed Assets	(89,700)	-	(89,700)
Interfund transfers	80,739	(80,739)	-
<u>NET CASH (USED) PROVIDED</u> <u>BY FINANCING ACTIVITIES</u>	(34,078)	(80,739)	(114,817)
NET INCREASE (DECREASE) IN CASH & EQUIVALENTS	57,607	(27,718)	29,889
CASH & EQUIVALENTS AT BEGINNING OF THE PERIOD	101,832	421,428	523,260
CASH & EQUIVALENTS AT END OF THE PERIOD	\$ 159,439	\$ 393,710	\$ 553,149
<u>SUPPLEMENTAL DISCLOSURE</u>			
Interest Expense	\$ -	\$ 3,283	\$ 3,283

LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE A – NATURE OF ORGANIZATION

Lummi Island Scenic Estates Community Club, Inc. is a statutory homeowner Association in the State of Washington organized and incorporated in 1962. The Association is responsible for the operation and maintenance of the common property of Lummi Island Scenic Estates Community Club, Inc.. Lummi Island Scenic Estates Community Club, Inc. consists of 399 residential lots located in Lummi Island, 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 September 7, 2021, 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.

LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE C-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Member Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. 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. At December 31, 2020, the Association had assessments delinquent 90 days or more of approximately \$243,827.

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 reporting period. Actual results could differ from those estimates.

NOTE D-INCOME TAXES

Condominium Associations may be taxed either as homeowners' Associations or as regular corporations. In 2020, 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, 2020, the tax years that remain subject to examination by taxing authorities begin with 2017.

LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE E-COMMITMENTS

The Association has various contracts for services including but not limited to management, maintenance, and landscaping.

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 \$393,710 at December 31, 2020, are held in separate accounts and are generally not available for operating purposes. Cash balances shown on the balance sheet that are part of these funds are held in separate bank accounts.

The Association engaged a specialist who conducted a study update in 2020 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.

NOTE G-LOAN PAYABLE

The Association has entered into a Drinking Water State Revolving Fund Loan (DWSRF) agreement with Public Works Board (PWB), a department of the State of Washington, dated March 3, 2009. This agreement was amended on February 22, 2011. This agreement provided for a loan not to exceed \$993,219 bearing interest at 1-1/2% per annum with a repayment time not to exceed 20 years. The proceeds of this loan were required to be used for water system capital improvement projects defined by the Association and approved by the Washington State Health Department. Through 2012, \$550,749 was drawn against the loan. The Association makes an annual payment each year on the October 1 loan due date of the amount collected that year from members. At December 31, 2020, the balance on the loan was approximately \$193,773.

LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE H-ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2020:

	<u>Operating Fund</u>
Assessments	\$ 244,439
Allowance for Doubtful Accounts	<u>(243,827)</u>
	<u>\$ 612</u>

Bad debt expense for the year ended December 31, 2020 was \$42,835.

NOTE I-FIXED ASSETS

Fixed assets consisted of the following at December 31, 2020:

	<u>Operating Fund</u>
Land	\$ 95,332
Buildings	67,891
Dock	59,738
Equipment	163,739
Office Addition	11,104
Road	84,286
Truck	22,153
Water Distribution System	558,591
Water System	306,457
Accumulated Depreciation	<u>(696,004)</u>
	<u>\$ 673,287</u>

Current year depreciation for the year ended December 31, 2020, was \$42,061.

SUPPLEMENTARY INFORMATION

LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.
UNAUDITED SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS
December 31, 2020

A specialist conducted a study update in 2020 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 HAS
NOT BEEN AUDITED APPEARS ON PAGE 11



UNAUDITED SUPPLEMENTARY INFORMATION

Fully Funded Balance Calculations

Lummi Island Scenic Estates

$FFB = \text{the sum of } \frac{\text{replacement cost} * \text{effective age}}{\text{useful life}} \text{ for all reserve components}$

Component Description	Quantity	Unit	Maintenance Cycle (Useful Life)	Remaining Useful Life	Effective Age	Current Replacement Cost	Fully Funded Balance
100% 2.6.1 Asphalt Pavement - Repair	1	LS	10	12	-	\$20,000	\$0
100% 2.6.2 Asphalt Pavement - Major Repair	16000	SF	40	2	38	\$74,130	\$70,424
100% 2.6.3 Asphalt Parking Lot - Overlay	14000	SF	40	9	31	\$48,300	\$37,433
100% 2.7.1 Chain Link Fence - Replace	320	LF	30	13	17	\$9,030	\$5,117
100% 2.9.1 Dock Work - Repair	1	LS	15	13	2	\$30,000	\$4,000
100% 2.9.2 Dock Pilings - Replace	1	LS	50	13	37	\$115,000	\$85,100
100% 7.4.1 Sloped Metal Roofs - Replace	33	SQ	40	10	30	\$31,560	\$23,670
100% 7.4.2 Low Sloped Roofs - Replace	17	SQ	20	16	4	\$22,630	\$4,526
100% 8.3.1 Garage Doors - Replace	3	EA	20	18	2	\$5,090	\$509
100% 11.1.1 Backhoe - Replace	1	EA	25	25	-	\$80,290	\$0
100% 11.1.2 Truck - Replace	1	EA	10	3	7	\$51,730	\$36,211
100% 11.1.3 Tractor Mower - Replace	1	EA	20	18	2	\$10,000	\$1,000
100% 11.1.4 Road Sweeper - Maintenance	1	LS	5	3	2	\$1,150	\$460
100% 12.1.1 Clubhouse - Repair Contingency	1	LS	10	3	7	\$30,000	\$21,000
100% 12.1.2 Common Buildings - Repair Contingency	1	LS	10	3	7	\$20,000	\$14,000
100% 15.1.1 Water Meters - Replace	218	EA	20	10	10	\$64,400	\$32,200
100% 15.1.2 PRV Vaults - Maintenance	1	LS	5	4	1	\$10,000	\$2,000
100% 15.1.3 Holiday Lake PRV - Replace	1	LS	40	38	2	\$15,000	\$750
100% 15.1.4 Mount Vista Drive PRV - Replace	1	LS	40	0	40	\$8,000	\$8,000
100% 15.1.5 Island Drive PRV - Replace	1	LS	40	0	40	\$8,000	\$8,000
100% 15.2.1 Water Towers - Circulation System	2	EA	30	26	4	\$25,540	\$3,405
100% 15.2.2 Water Towers - Repair	2	EA	50	5	45	\$20,000	\$18,000
100% 15.2.3 Reservoir & Dam - Maintenance	1	LS	10	6	4	\$20,000	\$8,000
100% 15.2.4 Mixer Unit & Storage Tanks - Maintenance	1	LS	20	17	3	\$25,000	\$3,750
100% 15.3.1 Holiday Lake Overflow - Refurbish	1	LS	40	0	40	\$10,000	\$10,000
100% 15.4.1 Treatment Plant - Repair	1	LS	20	0	20	\$79,000	\$79,000
100% 15.5.1 Water Mains - Repair	17849	LF	10	0	10	\$30,000	\$30,000
100% 15.6.1 Septic Systems - Maintenance	2	EA	15	8	7	\$26,920	\$12,563
100% 16.5.1 Generator - Replace	1	EA	45	8	37	\$15,440	\$12,695
100% 18.1.1 Water Treatment System - Phase 1	1	LS	50	1	49	\$65,000	\$63,700
100% 18.1.2 Water Treatment System - Phase 2	1	LS	50	2	48	\$65,000	\$62,400
FULLY FUNDED BALANCE						Total	\$657,912

CURRENT RESERVE BALANCE = \$411,619
 PERCENT FULLY FUNDED = 63%

July 21, 2020

ABBREVIATION KEY

EA each
 BLDG building(s)
 FIXT fixture(s)

LF linear foot
 LS lump sum
 SF square feet

SQ roofing square
 SY square yard
 ZN zone

See Independent Auditor's Report and Notes to Financial Statements
 Page 11

RESERVE CONSULTANTS LLC

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