

**LUMMI ISLAND SCENIC ESTATES
COMMUNITY CLUB, INC.**

**FINANCIAL STATEMENTS
With Independent Auditor's Report**

December 31, 2018

LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.
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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Lummi Island Scenic Estates Community Club, Inc.
Lummi Island, WA 98262

Report on the Financial Statements

We have audited the accompanying financial statements of Lummi Island Scenic Estates Community Club, Inc. which comprise the balance sheet as of December 31, 2018, and the related statements of revenue and expense and changes in fund balances, and cash flows-all funds for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statement

These financial statements are the responsibility of the Association's management. 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.

Auditors' 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 of material misstatements.

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 Lummi Island Scenic Estates Community Club, Inc., Inc. as of December 31, 2018 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 Supplementary information on future major repairs and replacements on page 8 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 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 response 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 limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Thomson & Company, PLLC
Bellingham, Washington
August 23, 2019

LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.

BALANCE SHEET

December 31, 2018

	ASSETS		
	GENERAL FUND	MAJOR REPAIR & REPLACEMENT FUND	TOTAL FUNDS
ASSETS			
Cash			
Cash in checking	\$ 133,771	\$ -	\$ 133,771
Certificate of deposits	-	288,740	288,740
Maintenance reserves	-	144,887	144,887
Total cash	<u>133,771</u>	<u>433,627</u>	<u>567,398</u>
Accounts receivable	177,502	-	177,502
Prepaid insurance	18,917	-	18,917
Prepaid attorney fees	9,157	-	9,157
Property, plant and equipment, net	<u>525,291</u>	<u>-</u>	<u>525,291</u>
Total Assets	<u>\$ 864,638</u>	<u>\$ 433,627</u>	<u>\$ 1,298,265</u>

LIABILITIES AND FUND BALANCES

LIABILITIES			
Accounts payable and accrued expenses	\$ 20,035	\$ -	\$ 20,035
DWSRF loan	<u>237,226</u>	<u>-</u>	<u>237,226</u>
Total Liabilities	257,261	-	257,261
FUND BALANCES	<u>607,377</u>	<u>433,627</u>	<u>1,041,004</u>
Total Liabilities and Fund Balances	<u>\$ 864,638</u>	<u>\$ 433,627</u>	<u>\$ 1,298,265</u>

The Accompanying Notes are an Integral Part of these Statements

LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2018

	GENERAL FUND	MAJOR REPAIR & REPLACEMENT FUND	TOTAL FUNDS
REVENUE			
Dues	\$ 290,586	\$ -	\$ 290,586
Water use fees	67,635	-	67,635
Water loan fees	28,405	-	28,405
Interest	1,792	-	1,792
Other	39,189	-	39,189
Total Revenue	427,607	-	427,607
EXPENSES			
Wages, taxes and benefits	131,637	-	131,637
Water treatment expenses	17,442	-	17,442
Water loan interest	4,067	-	4,067
Maintenance and repairs	15,916	-	15,916
Utilities	15,677	-	15,677
Insurance	60,432	-	60,432
Professional fees	20,994	-	20,994
Office expense	12,730	-	12,730
Property taxes	2,697	-	2,697
Depreciation	29,928	-	29,928
Reserve study	1,000	-	1,000
Total Expenses	312,520	-	312,520
Excess of revenue over(under) expenses before federal income tax and fund transfers	115,087	-	115,087
Federal income tax refund (expense)	(508)	-	(508)
Fund transfers - net	(7,795)	7,795	-
	106,784	7,795	114,579
Fund Balances, January 1, 2018	500,593	425,832	926,425
Fund Balances, December 31, 2018	\$ 607,377	\$ 433,627	\$ 1,041,004

The Accompanying Notes are an Integral Part of these Statements

LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.
STATEMENT OF CASH FLOWS - ALL FUNDS
For the Year Ended December 31, 2018

Cash flows from operating activities	
Excess of revenue over(under) expense after federal income tax	\$ 114,579
Adjustments to reconcile to net cash provided by operating activities	
Depreciation and amortization	29,928
(Increase)decrease in accounts receivable	(18,018)
(Increase)decrease in prepaid insurance	4,793
(Increase)decrease in prepaid attorney fees	15,534
Increase(decrease) in accounts payable and accrued expenses	<u>(40,629)</u>
Net CASH provided by operating activities	106,187
Cash flows from investing activities	
Purchase of property, plant & equipment	<u>(48,953)</u>
Net CASH used by investing activities	<u>(48,953)</u>
Cash flows from financing activities	
Payments on long-term debt	<u>(27,524)</u>
Net CASH used by financing activities	<u>(27,524)</u>
Net change in cash	78,663
CASH, beginning of period	<u>488,735</u>
CASH, end of period	<u><u>\$ 567,398</u></u>
SUPPLEMENTAL DISCLOSURES	
Interest paid	<u>\$ 4,067</u>
Income taxes paid	<u>\$ 508</u>

The Accompanying Notes are an Integral Part of these Statements

LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 1- ORGANIZATION

Lummi Island Scenic Estates Community Club, Inc. (The Association) was incorporated in the State of Washington in 1962. The Association is a common interest realty association as defined by the State of Washington. The main purpose of the Association is to maintain, preserve, and manage the common property of the Association. The Association consists of 440 lots located on Lummi Island, Washington. There are 5 lots that are common area lots, and 41 lots bound to another lot.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method - The Association prepares its statements on the accrual basis of accounting whereby income and expenses are recognized when earned and incurred. Fund accounting, requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the general fund are generally at the discretion of the Board of Directors to pay for all utility, insurance, general maintenance, landscaping, and administrative obligations of the Association.

Cash- For the purposes of the statement of cash flows, cash includes all funds in checking accounts, savings accounts or certificates of deposits.

Concentration of credit risk- The Association maintains cash balances at several financial institutions at several locations. The balances are insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2018, there were no uninsured cash balances.

Accounts Receivable- Assessments receivable at the balance sheet date represents the amounts due from the Association's owners. The Association's policy is to retain legal counsel and place liens on the properties of the unit owners whose assessments are ninety days or more delinquent. Due to this policy, the Association considers all assessments collectible, therefore no allowance for uncollectible assessments has been made.

Capitalization Policy - Real property, common elements and improvements are not recognized as association assets as the Association does not hold title to such property, and disposition is restricted by the Declaration. All expenditures for real property common maintenance and replacements are reflected as an expense in the reporting period incurred.

Fair Value Measurement – The Association follows accounting standards with disclosures relating to fair value measurements of its investments and liabilities.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events – Management has evaluated subsequent events through August 23, 2019, the date the financial statements were available to be issued.

NOTE 3 - OWNER'S DUES

Homeowner dues are levied on individual lot owners as specified by the Declaration and its amendments. The annual budget and dues are determined by the Board of Directors and approved by the members. The Association retains excess operating funds at the end of the year, if any, for use in the future operating period. Special assessments are levied on the lot owners upon approval by the members. The Special assessments must be for a specific purpose.

LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 4 - FEDERAL INCOME TAXES

The Association has elected to file as a homeowners' association in accordance with Internal Revenue Service Code Section 528. Under that section, the Association excludes from taxation exempt function income, which generally consists of revenue from uniform dues to owners. The Association's interest income is subject to tax. For the year ended December 31, 2018 the amount of tax due was \$508.

For the year ended December 31, 2018, the Association adopted guidance in FASB ASC 740-10, regarding the reporting of uncertainty in income taxes. The implementation of FASB ASC 740-10 had no impact on the Association's balance sheet or statement of revenue and expenses and changes in fund balances. The Association does not believe its financial statements reflect any uncertain tax positions. The Association's accounting policy requires recording a liability for uncertain tax positions when it is probable that a loss has been incurred and the amount can be reasonably estimated. The Association continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings in determining transactions to be recognized in the financial statements.

NOTE 5 - PROPERTY, PLANT & EQUIPMENT

At December 31, 2018, property, plant and equipment consisted of the following:

Land	\$ 95,332
Water system	292,034
Roads	78,507
Docks	31,191
Buildings	59,058
Truck	22,153
Equipment	89,618
Office addition	11,105
Water distribution system	<u>477,650</u>
	1,156,648
Less accumulated depreciation	<u>631,357</u>
<i>Property, plant and equipment – net</i>	<u><u>\$ 525,291</u></u>

NOTE 6 - PENSION PLAN

The Association has a defined contribution plan (the Plan) covering all employees who meet the eligibility requirements. The Association makes a contribution to the Plan each year matching up to a certain percent of all eligible participants' compensation. Total pension contribution for the year ended December 31, 2018 was 3% for an expense of \$1,668.

NOTE 7 - DWSRF LOAN

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. Future minimum loan payments are as follows:

Year ending,	
December 31, 2017	\$ 22,597
December 31, 2018	22,597
December 31, 2019	22,597
December 31, 2020	22,597
Thereafter	<u>146,838</u>
<i>Total amount of DWSRF loan</i>	<u><u>\$ 237,226</u></u>

LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 8 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Declaration states the responsibility of the Association for maintaining the common areas, and defines the extent of such common areas. The Declaration allows the Board of Directors to include a provision in the annual budget for funding future repair and replacement costs. The Declaration also allows the Board of Directors to levy special assessments, with member approval when existing funds are inadequate for that or any reason.

For the year ended December 31, 2018, the Association had engaged independent professionals to make a study to estimate the remaining lives and replacement costs of common property. This study was completed in July, 2018. Such estimate provided information about the anticipated future costs of common properties and the funds necessary to accumulate toward such expenditures. The Board has not developed a formal plan to fund those needs. Funds are being accumulated in the replacement fund based on estimated costs for repairs and replacements of common property components. Actual expenditures 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 all future needs for major repair and replacements. If additional funds are needed, the Association's Board has the right to increase member assessments, pass special assessments, or delay major repair and replacements until funds are available.

Any major additions or major improvements are governed by the Association's Declaration and By-Laws.

NOTE 9 - WATER CONNECTIONS

The Association has 250 water connections permitted, of which 221 connections are in service. The Association is applying for more water connections. The outcome of this application is uncertain as of the date of these financial statements.

NOTE 10 - CONTINGENT LIABILITIES

The Association had been subject to a legal action by an outside party seeking to declare that the Association's rights and covenants have expired. This action has been settled, and the Association received insurance reimbursement for the legal fees incurred. These funds have been set aside for future legal fee expenses.

The outside party brought an appeal regarding the settlement against the Association. The Ninth Circuit Court of Appeals affirmed the District Court decision and rejected the appeal. This decision was final on June 20, 2018.

SUPPLEMENTARY INFORMATION

LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.
SUPPLEMENTARY INFORMATION
ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
December 31, 2018
(Unaudited)

The Association's board of directors contracted for a reserve study that was completed in 2018. This reserve study will estimate the remaining useful lives and the replacement costs of the components of common property. The estimate current replacement costs below are based on estimated costs in as presented the reserve study as of July, 2018 and do not take into account the effects of inflation between that date and the date the components will require repair or replacement.

Components	Estimated Remaining Useful Life (Years)	Estimated Replacement Cost	Fund Balance at Year end
Truck	1	\$ 39,240	\$ 38,691
Reserve Study	1	3,500	3,500
Clearwell replacement	2-5	5,200	3,658
Swim lake dock and beach upgrades	2-30	6,500	6,449
Backhoe	2-25	58,040	58,040
Valves replacement	5	20,800	-
Clubhouse major repair	5-10	26,800	15,711
Common buildings major repair	5-10	21,500	12,604
Water mains repair	5-10	87,920	51,541
Dock work	5-15	15,500	12,115
Reservoir and Dam maintenance	8-10	20,800	4,877
Asphalt pavement	10	21,500	-
Septic systems replacement	10-15	24,310	9,500
Treatment plant repair	10-20	82,600	48,423
Generator replacement	10-45	13,940	12,712
Water meters replacement	12-20	58,150	27,694
Metal sloped roofing	12-40	28,500	23,391
Chain link fence	15-30	8,150	4,778
Dock pilings	15-50	106,500	87,407
Flat roofing	18-20	20,430	2,395
Mixer unit and storage tanks maintenance	19	25,900	1,518
Road Sweeper	20	4,700	-
Garage doors replacement	20	4,590	270
Tractor mower	20	6,000	5,862
Water towers, circulation system	28-30	23,070	1,803
Water Towers repair	48-50	14,660	687
		<u>\$ 748,800</u>	<u>\$ 433,627</u>