

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

**INDEPENDENT AUDITOR'S REPORT**

**AND**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE**

**YEAR ENDED DECEMBER 31, 2022**

**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

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## 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, 2022, 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.

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, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibility under those standards are further described in the auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lummi Island Scenic Estates Community Club, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Lummi Island Scenic Estates Community Club, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

## INDEPENDENT AUDITOR'S REPORT--Continued

### Auditor's Responsibilities for the Audit of the Financial Statements - Continued

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lummi Island Scenic Estates Community Club, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lummi Island Scenic Estates Community Club, Inc.'s ability to continue as a going concern for a reasonable period of time.

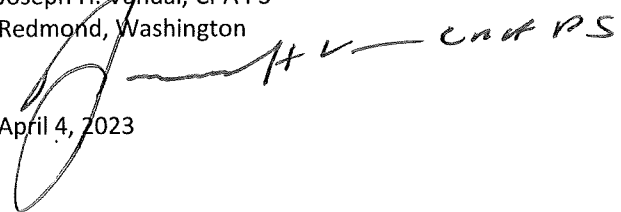
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### 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 pages 11-12 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 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

April 4, 2023



**LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.**  
**BALANCE SHEET**  
**December 31, 2022**

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash-Checking	\$ 68,724	\$ 180,315	\$ 249,039
Certificates of Deposit	-	344,707	344,707
Assessments Receivable	283,103	-	283,103
Allowance for Doubtful Accounts	(280,251)	-	(280,251)
Other Prepaid Expenses	2,651	-	2,651
Prepaid Insurance	12,167	-	12,167
Fixed Assets	1,415,858	-	1,415,858
Accumulated Depreciation	<u>(772,797)</u>	<u>-</u>	<u>(772,797)</u>
 Total Assets	 <u>\$ 729,455</u>	 <u>\$ 525,022</u>	 <u>\$ 1,254,477</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
Accounts Payable	\$ 8,549	\$ -	\$ 8,549
Payroll Liabilities	5,485	-	5,485
Visa Payable	1,470	-	1,470
DWSRF Loan Payable	142,404	-	142,404
Prepaid Assessments	<u>43,894</u>	<u>-</u>	<u>43,894</u>
 Total Liabilities	 201,802	 -	 201,802
 Fund Balance	 <u>527,653</u>	 <u>525,022</u>	 <u>1,052,675</u>
 Total Liabilities & Fund Balance	 <u>\$ 729,455</u>	 <u>\$ 525,022</u>	 <u>\$ 1,254,477</u>

**LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND BALANCE**  
**For the Year Ended December 31, 2022**

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
<b>REVENUES</b>			
Assessments			
Regular	\$ 207,576	\$ 56,600	\$ 264,176
Water Fees	129,381	-	129,381
DWSRF Loan Fees	41,124	-	41,124
Other	12,654	-	12,654
Interest	-	3,554	3,554
<b>TOTAL REVENUE</b>	<u>390,735</u>	<u>60,154</u>	<u>450,889</u>
<b>EXPENSES</b>			
Accounting/Bookkeeping	4,750	-	4,750
Administration	11,453	-	11,453
Professional Services	9,371	-	9,371
Licenses and Permits	20	-	20
State Taxes	6,795	-	6,795
Insurance	28,049	-	28,049
Payroll Expense	197,829	-	197,829
Repairs and Maintenance	43,835	-	43,835
Water System	36,899	-	36,899
Utilities	19,450	-	19,450
Depreciation	41,134	-	41,134
Bad Debt	12,621	-	12,621
Interest Expense	-	2,524	2,524
Reserve Study	-	3,500	3,500
<b>TOTAL EXPENSES</b>	<u>412,206</u>	<u>6,024</u>	<u>418,230</u>
<b>REVENUES OVER/(UNDER) EXPENSES</b>	(21,471)	54,130	32,659
<b>BEGINNING FUND BALANCE</b>	609,097	410,919	1,020,016
Transfer to (from)	<u>(59,973)</u>	<u>59,973</u>	<u>-</u>
<b>ENDING BALANCE</b>	<u>\$ 527,653</u>	<u>\$ 525,022</u>	<u>\$ 1,052,675</u>

**LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2022**

	OPERATING FUND	REPLACEMENT RESERVE FUND	TOTAL
<u>CASH FLOWS FROM OPERATING</u>			
<u>ACTIVITIES</u>			
REVENUE OVER/(UNDER) EXPENSES	\$ (21,471)	\$ 54,130	\$ 32,659
Adjustments to reconcile excess of expenses over revenues to net cash provided by activities:			
Accumulated Depreciation	41,134	-	41,134
(Increase) Decrease in:			
Assessments Receivable	(1,887)	-	(1,887)
Prepaid Insurance	(1,151)	-	(1,151)
Increase (Decrease) in:			
Accounts Payable	2,561	-	2,561
Visa Payable	746	-	746
Payroll Liabilities	(3,008)	-	(3,008)
Prepaid Assessments	31,801	-	31,801
	<u>48,725</u>	<u>54,130</u>	<u>102,855</u>
<u>NET CASH PROVIDED BY</u>			
<u>OPERATING ACTIVITIES</u>			
<u>CASH FLOWS FROM</u>			
<u>FINANCING ACTIVITIES</u>			
DWSRF Loan Payable	(25,876)	-	(25,876)
Fixed Assets	(14,318)	-	(14,318)
Interfund transfers	(59,973)	59,973	-
	<u>(100,167)</u>	<u>59,973</u>	<u>(40,194)</u>
<u>NET CASH (USED) PROVIDED</u>			
<u>BY FINANCING ACTIVITIES</u>			
NET INCREASE (DECREASE)			
IN CASH & EQUIVALENTS	(51,442)	114,103	62,661
CASH & EQUIVALENTS AT			
BEGINNING OF THE PERIOD	<u>120,166</u>	<u>410,919</u>	<u>531,085</u>
CASH & EQUIVALENTS AT			
END OF THE PERIOD	<u>\$ 68,724</u>	<u>\$ 525,022</u>	<u>\$ 593,746</u>
<u>SUPPLEMENTAL DISCLOSURE</u>			
Interest Expense	<u>\$ -</u>	<u>\$ 2,524</u>	<u>\$ 2,524</u>

**LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2022**

**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 April 4, 2023, 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, 2022**

**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, 2022, the Association had assessments delinquent 90 days or more of approximately \$280,251.

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 2022, 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, 2022, the tax years that remain subject to examination by taxing authorities begin with 2019.

**LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2022**

**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 \$525,022 at December 31, 2022, 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 2022 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, 2022, the balance on the loan was approximately \$142,404.

**LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2022**

**NOTE H-ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at December 31, 2022:

	<u>Operating Fund</u>
Assessments	\$ 283,103
Allowance for Doubtful Accounts	<u>(280,251)</u>
	<u>\$ 2,852</u>

Bad debt expense for the year ended December 31, 2022 was \$12,621.

**NOTE I-FIXED ASSETS**

Fixed assets consisted of the following at December 31, 2022:

	<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	605,158
Water System	306,457
Accumulated Depreciation	<u>(772,797)</u>
	<u>\$ 643,061</u>

Current year depreciation for the year ended December 31, 2022, was \$41,134.

**SUPPLEMENTARY INFORMATION**

**LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.**  
**UNAUDITED SUPPLEMENTARY INFORMATION ON**  
**FUTURE MAJOR REPAIRS AND REPLACEMENTS**  
**December 31, 2022**

A specialist conducted a study update in 2022 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 pages 11-12 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 PAGES 11-12

UNAUDITED SUPPLEMENTARY INFORMATION



COMPONENT LIST

The component list is based on information provided by Lummi Island Scenic Estates. Reserve Consultants LLC does not provide legal interpretations of governing documents; it is the responsibility of Lummi Island Scenic Estates to ensure that the component list is complete and complies with their governing documents. Many factors may influence the actual costs that an association will experience. The quality of replacement materials of items can significantly impact cost, as well as the timing between replacements. The use of consultants to specify and oversee work may also cause additional expenses.

		Primary Expenses	Secondary (Discretionary) Expenses			
COMPONENT DESCRIPTION			MAINT. CYCLE	REMAINING USEFUL LIFE	NEXT MAINT. YEAR	CURRENT REPLACEMENT COST
2.2.1	Corrugated Metal Storm Water System - Contingency	Site	5	3	2025	\$5,000
2.6.1	Asphalt Pavement - Repair	Site	10	13	2035	\$21,010
2.6.2	Asphalt Pavement - Major Repair	Site	40	3	2025	\$77,840
2.6.3	Asphalt Parking Lot - Overlay	Site	40	8	2030	\$50,780
2.7.1	Chain Link Fence - Replace	Site	30	11	2033	\$9,480
2.9.1	Dock Replacement - Design	Site	3	3	2025	\$7,500
2.9.2	Dock Work - Repair	Site	15	8	2030	\$31,510
2.9.3	Dock Pilings - Replace	Site	50	3	2025	\$120,790
2.9.4	Dock Walkway - Install/Replace	Site	10	8	2030	\$10,000
6.1.1	Clubhouse - Repair Contingency	Ext Envelope	10	11	2033	\$31,510
6.1.2	Clubhouse Foundation - Restoration	Ext Envelope	1	1	2023	\$271,150
6.1.3	Common Buildings - Repair Contingency	Ext Envelope	10	6	2028	\$21,010
7.4.1	Sloped Metal Roofs - Replace	Ext Envelope	40	8	2030	\$33,150
7.4.2	Low Sloped Roofs - Replace	Ext Envelope	20	14	2036	\$23,770
8.3.1	Garage Doors - Replace	Ext Envelope	20	16	2038	\$5,340
11.1.1	Backhoe - Replace	Equipment	25	23	2045	\$84,330
11.1.2	Truck - Replace	Equipment	10	2	2024	\$10,320
11.1.3	Tractor Mower - Replace	Equipment	20	16	2038	\$10,500
11.1.4	Road Sweeper - Maintenance	Equipment	5	5	2027	\$1,210
15.1.1	Water Meters - Replace	Life Safety	20	8	2030	\$67,640
15.1.2	PRV Vaults - Maintenance	Life Safety	5	2	2024	\$10,500
15.1.3	Holiday Lake PRV - Replace	Life Safety	40	36	2058	\$15,760
15.1.4	Mount Vista Drive PRV - Replace	Life Safety	40	39	2061	\$10,000
15.1.5	Island Drive PRV - Replace	Life Safety	40	1	2023	\$10,320

**UNAUDITED SUPPLEMENTARY INFORMATION**



LUMMI ISLAND SCENIC ESTATES  
RESERVE FUNDING RECOMMENDATIONS FOR 2023

COMPONENT LIST CONTINUED

Primary Expenses
  Secondary (Discretionary) Expenses

COMPONENT DESCRIPTION		MAINT. CYCLE	REMAINING USEFUL LIFE	NEXT MAINT. YEAR	CURRENT REPLACEMENT COST
15.2.1 Water Towers - Circulation System	Life Safety	30	24	2046	\$26,830
15.2.2 Water Towers - Repair	Life Safety	50	3	2025	\$21,010
15.2.3 Reservoir & Dam - Maintenance	Life Safety	10	4	2026	\$21,010
15.2.4 Mixer Unit & Storage Tanks - Maintenance	Life Safety	20	15	2037	\$26,260
15.2.5 Clubhouse Water Line - Repair	Life Safety	10	9	2031	\$7,700
15.3.1 Holiday Lake Overflow - Refurbish	Life Safety	40	38	2060	\$8,190
15.4.1 Water Treatment System - Phase 1	Life Safety	50	0	2022	\$68,000
15.4.2 Water Treatment System - Phase 2	Life Safety	50	1	2023	\$406,000
15.4.3 Water Treatment System - Phase 3	Life Safety	50	2	2024	\$1,200,000
15.4.4 Treatment Plant - Repair	Life Safety	20	22	2044	\$77,840
15.5.1 Water Mains - Repair	Life Safety	10	10	2032	\$31,510
15.6.1 Septic Systems - Maintenance	Life Safety	15	6	2028	\$28,270
16.5.1 Generator - Replace	Life Safety	45	6	2028	\$16,220