

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

**INDEPENDENT AUDITOR'S REPORT**

**AND**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE**

**YEAR ENDED DECEMBER 31, 2021**

**AND**

**UNAUDITED SUPPLEMENTARY INFORMATION**

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

**TABLE OF CONTENTS**

	<b>Page</b>
<b>INDEPENDENT AUDITOR'S REPORT.....</b>	<b>1-2</b>
<b>FINANCIAL STATEMENTS</b>	
<b>Balance Sheet.....</b>	<b>3</b>
<b>Statement of Revenues, Expenses and Changes in     Fund Balance .....</b>	<b>4</b>
<b>Statement of Cash Flows.....</b>	<b>5</b>
<b>Notes to Financial Statements .....</b>	<b>6-9</b>
<b>UNAUDITED SUPPLEMENTARY INFORMATION</b>	
<b>Unaudited Supplementary Information     on Future Major Repairs and Replacements.....</b>	<b>10-11</b>

# 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, 2021, 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, 2021, 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 the 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:

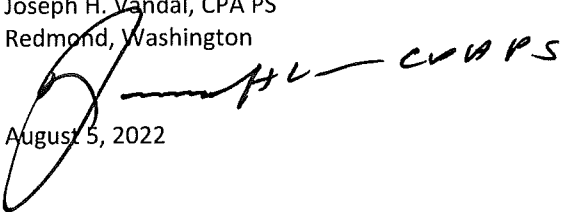
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, 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 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

  
August 5, 2022

**LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.**  
**BALANCE SHEET**  
**December 31, 2021**

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash-Checking	\$ 120,166	\$ 69,027	\$ 189,193
Certificates of Deposit	-	341,892	341,892
Assessments Receivable	292,115	-	292,115
Allowance for Doubtful Accounts	(291,150)	-	(291,150)
Other Prepaid Expenses	2,651	-	2,651
Prepaid Insurance	11,016	-	11,016
Fixed Assets	1,401,540	-	1,401,540
Accumulated Depreciation	<u>(731,663)</u>	<u>-</u>	<u>(731,663)</u>
 Total Assets	 <u>\$ 804,675</u>	 <u>\$ 410,919</u>	 <u>\$ 1,215,594</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
Accounts Payable	\$ 5,988	\$ -	\$ 5,988
Payroll Liabilities	8,493	-	8,493
Visa Payable	724	-	724
DWSRF Loan Payable	168,280	-	168,280
Prepaid Assessments	<u>12,093</u>	<u>-</u>	<u>12,093</u>
 Total Liabilities	 195,578	 -	 195,578
 Fund Balance	 <u>609,097</u>	 <u>410,919</u>	 <u>1,020,016</u>
 Total Liabilities & Fund Balance	 <u>\$ 804,675</u>	 <u>\$ 410,919</u>	 <u>\$ 1,215,594</u>

**LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND BALANCE**  
**For the Year Ended December 31, 2021**

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
<b>REVENUES</b>			
Assessments			
Regular	\$ 232,675	\$ 56,600	\$ 289,275
Water Fees	71,345	-	71,345
DWSRF Loan Fees	28,329	-	28,329
Other	8,277	-	8,277
Interest	-	3,443	3,443
<b>TOTAL REVENUE</b>	<u>340,626</u>	<u>60,043</u>	<u>400,669</u>
<b>EXPENSES</b>			
Accounting/Bookkeeping	5,975	-	5,975
Administration	13,969	-	13,969
Professional Services	5,000	-	5,000
Licenses and Permits	10	-	10
State Taxes	11,592	-	11,592
Insurance	25,549	-	25,549
Payroll Expense	157,932	-	157,932
Repairs and Maintenance	30,816	-	30,816
Water System	51,902	-	51,902
Utilities	16,762	-	16,762
Depreciation	35,659	-	35,659
Bad Debt	50,278	-	50,278
Interest Expense	-	2,907	2,907
Reserve Study	-	1,100	1,100
Federal Income Tax	-	523	523
<b>TOTAL EXPENSES</b>	<u>405,444</u>	<u>4,530</u>	<u>409,974</u>
<b>REVENUES OVER/(UNDER) EXPENSES</b>	<b>(64,818)</b>	<b>55,513</b>	<b>(9,305)</b>
<b>BEGINNING FUND BALANCE</b>	<b>596,881</b>	<b>393,710</b>	<b>990,591</b>
Prior Period Adjustment	38,730	-	38,730
Transfer to (from)	38,304	(38,304)	-
<b>ENDING BALANCE</b>	<u><b>\$ 609,097</b></u>	<u><b>\$ 410,919</b></u>	<u><b>\$ 1,020,016</b></u>

See Independent Auditor's Report and Notes to Financial Statements

**LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2021**

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
<u>CASH FLOWS FROM OPERATING</u>			
<u>ACTIVITIES</u>			
REVENUE OVER/(UNDER) EXPENSES	\$ (64,818)	\$ 55,513	\$ (9,305)
Adjustments to reconcile excess of expenses over revenues to net cash provided by activities:			
Accumulated Depreciation	35,659	-	35,659
(Increase) Decrease in:			
Assessments Receivable	(353)	-	(353)
Prepaid Income Tax	(15)	-	(15)
Prepaid Insurance	(889)	-	(889)
Increase (Decrease) in:			
Accounts Payable	4,716	-	4,716
Visa Payable	461	-	461
Payroll Liabilities	1,142	-	1,142
Prepaid Assessments	(34,468)	-	(34,468)
	<u>(58,565)</u>	<u>55,513</u>	<u>(3,052)</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>			
<u>CASH FLOWS FROM</u>			
<u>FINANCING ACTIVITIES</u>			
DWSRF Loan Payable	(25,493)	-	(25,493)
Fixed Assets	(32,249)	-	(32,249)
Prior Period Adjustment	38,730	-	38,730
Interfund transfers	38,304	(38,304)	-
	<u>19,292</u>	<u>(38,304)</u>	<u>(19,012)</u>
<u>NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES</u>			
NET INCREASE (DECREASE) IN CASH & EQUIVALENTS	(39,273)	17,209	(22,064)
CASH & EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>159,439</u>	<u>393,710</u>	<u>553,149</u>
CASH & EQUIVALENTS AT END OF THE PERIOD	<u>\$ 120,166</u>	<u>\$ 410,919</u>	<u>\$ 531,085</u>
<u>SUPPLEMENTAL DISCLOSURE</u>			
Interest Expense	<u>\$ -</u>	<u>\$ 2,907</u>	<u>\$ 2,907</u>

**LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021**

**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 August 5, 2022, 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, 2021**

**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, 2021, the Association had assessments delinquent 90 days or more of approximately \$291,150.

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 2021, 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, 2021, the tax years that remain subject to examination by taxing authorities begin with 2018.

**LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021**

**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 \$410,919 at December 31, 2021, 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, 2021, the balance on the loan was approximately \$168,280.

**LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021**

**NOTE H-ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at December 31, 2021:

	<u>Operating Fund</u>
Assessments	\$ 292,115
Allowance for Doubtful Accounts	<u>(291,150)</u>
	<u>\$ 965</u>

Bad debt expense for the year ended December 31, 2021 was \$50,278.

**NOTE I-FIXED ASSETS**

Fixed assets consisted of the following at December 31, 2021:

	<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	590,840
Water System	306,457
Accumulated Depreciation	<u>(731,663)</u>
	<u>\$ 669,877</u>

Current year depreciation for the year ended December 31, 2021, was \$35,659.

**SUPPLEMENTARY INFORMATION**

**LUMMI ISLAND SCENIC ESTATES COMMUNITY CLUB, INC.**  
**UNAUDITED SUPPLEMENTARY INFORMATION ON**  
**FUTURE MAJOR REPAIRS AND REPLACEMENTS**  
**December 31, 2021**

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
<b>FULLY FUNDED BALANCE</b>						<b>Total</b>	<b>\$657,912</b>

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

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