

Twin Lakes Homeowners Association

Financial Statements and  
Supplementary Information

For the Year Ended December 31, 2021

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## INDEPENDENT AUDITORS' REPORT

Board of Directors and Members  
Twin Lakes Homeowners Association  
Federal Way, Washington

### *Opinion:*

We have audited the accompanying financial statements of Twin Lakes Homeowners Association, 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 Twin Lakes Homeowners Association 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 responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association 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 the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### *Auditors' 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 AUDITORS' REPORT (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 the Association'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 the Association'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, which is presented as unaudited supplementary information behind the Notes to Financial Statements, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which 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 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.

*Stanford, Munder & Co., PLLC*

Certified Public Accountants

October 12, 2022

Twin Lakes Homeowners Association

Balance Sheet  
December 31, 2021

<u>Assets</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash	\$ 220,311	\$ 32,659	\$ 252,970
Certificates of deposit		300,426	300,426
Assessments receivable	14,114		14,114
Unexpired insurance	1,051		1,051
Property and equipment	340,354		340,354
Accumulated depreciation	<u>(225,809)</u>		<u>(225,809)</u>
Total assets	<u>\$ 350,021</u>	<u>\$ 333,085</u>	<u>\$ 683,106</u>

Liabilities and Fund Balances

Accounts payable	\$ 4,008	\$	\$ 4,008
Assessments received in advance	<u>73,156</u>		<u>73,156</u>
Total liabilities	\$ 77,164	\$	\$ 77,164
Fund balances	<u>272,857</u>	<u>333,085</u>	<u>605,942</u>
Total liabilities and fund balances	<u>\$ 350,021</u>	<u>\$ 333,085</u>	<u>\$ 683,106</u>

See accompanying notes to financial statements.

Twin Lakes Homeowners Association

Statement of Revenues, Expenses  
and Changes in Fund Balances  
For the Year Ended December 31, 2021

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues:			
Member assessments	\$ 524,124	\$ 18,000	\$ 542,124
Insurance proceeds	9,900		9,900
Other member charges	53,559		53,559
Interest		806	806
	<hr/>	<hr/>	<hr/>
Total revenues	\$ 587,583	\$ 18,806	\$ 606,389
Expenses:			
Utilities:			
Water and sewer	\$ 4,791	\$	\$ 4,791
Electricity	39,462		39,462
Telephone	767		767
Cable television	830		830
	<hr/>	<hr/>	<hr/>
	\$ 45,850	\$	\$ 45,850
Maintenance:			
General repairs and maintenance	\$ 22,978	\$	\$ 22,978
Grounds and landscaping	84,879		84,879
Fire and safety	128,570		128,570
Insurance claim repair	9,909		9,909
	<hr/>	<hr/>	<hr/>
	\$ 246,336	\$	\$ 246,336
General and administrative:			
Management fees	\$ 48,000	\$	\$ 48,000
Insurance	17,723		17,723
Professional services	23,125		23,125
Personnel costs	97,725		97,725
Uncollectible accounts	11,509		11,509
Depreciation	14,541		14,541
Office and miscellaneous	59,795		59,795
	<hr/>	<hr/>	<hr/>
	\$ 272,418	\$	\$ 272,418
	<hr/>	<hr/>	<hr/>
Total expenses	\$ 564,604	\$	\$ 564,604
Excess of revenues over expenses	\$ 22,979	\$ 18,806	\$ 41,785
Fund balances at beginning of year	195,852	368,305	564,157
Interfund transfers	54,026	(54,026)	
	<hr/>	<hr/>	<hr/>
Fund balances at end of year	\$ 272,857	\$ 333,085	\$ 605,942
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See accompanying notes to financial statements.

Twin Lakes Homeowners Association

Statement of Cash Flows  
For the Year Ended December 31, 2021

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Excess of revenues over expenses:	\$ 22,979	\$ 18,806	\$ 41,785
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation	14,541		14,541
(Increase) decrease in assets:			
Assessments receivable	14,297		14,297
Unexpired insurance	(1,051)		(1,051)
Increase (decrease) in liabilities:			
Accounts payable	2,517		2,517
Assessments received in advance	(11,089)		(11,089)
Net cash provided (used) by operating activities	\$ <u>42,194</u>	\$ <u>18,806</u>	\$ <u>61,000</u>
Cash flows from investing activities:			
Certificates of deposit	\$	\$ (300,426)	\$ (300,426)
Property and equipment	(21,900)		(21,900)
Net cash provided (used) by investing activities	\$ <u>(21,900)</u>	\$ <u>(300,426)</u>	\$ <u>(322,326)</u>
Cash flows from financing activities:			
Interfund transfers	\$ <u>54,026</u>	\$ <u>(54,026)</u>	\$
Net cash provided (used) by financing activities	\$ <u>54,026</u>	\$ <u>(54,026)</u>	\$
Net increase (decrease) in cash	\$ 74,320	\$ (335,646)	\$ (261,326)
Cash at beginning of year	<u>145,991</u>	<u>368,305</u>	<u>514,296</u>
Cash at end of year	<u>\$ 220,311</u>	<u>\$ 32,659</u>	<u>\$ 252,970</u>
Supplemental disclosure:			
Income taxes paid	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to financial statements.

Twin Lakes Homeowners Association

Notes to Financial Statements  
December 31, 2021

Note 1 - Nature of Organization:

Twin Lakes Homeowners Association is a statutory homeowner association incorporated as a nonprofit entity in the state of Washington in 1965. The Association is responsible for the operation and maintenance of the common property of Twin Lakes Homeowners Association which consists of 1,369 residential units located in Federal Way, Washington. The Association is subject to certain provisions of the Revised Code of Washington Chapter 64.

Note 2 - Date of Management's Review:

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through the date of the audit report, which is the date the financial statements were available to be issued.

Note 3 - 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 according to their nature and purpose: The operating fund is used to account for financial resources available for the general operations of the Association. The replacement fund is used to accumulate financial resources designated for future major repairs and replacements.

Cash and Cash Equivalents:

The Association recognizes cash, money market accounts and cash investments with original maturity dates of less than 90 days as cash and cash equivalents. The Association maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts.

Member Assessments:

Association members are subject to monthly assessments to finance the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The annual budget and member assessments are determined by the board of directors, within certain restrictions. The Association uses the allowance method to account for uncollectible assessments receivable. The Association retains excess operating funds at the end of the year, if any, for use in future periods.

Property and Equipment:

Real property and common areas acquired from the developer and related improvements to such property are not recognized as assets on the Association's financial statements. Although these properties are owned by the Association, the assets are not recognized under generally accepted accounting principles, due to the fact that the Association will not, in the ordinary course of business, dispose of the property. The Association capitalizes real property to which it has title or other evidence of ownership. If any assets are capitalized, they are recorded at cost and depreciated over the estimated useful life using the straight line method of depreciation.

Twin Lakes Homeowners Association

Notes to Financial Statements (Continued)  
December 31, 2021

Note 3 - Summary of Significant Accounting Policies (Continued):

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 4 - Future Major Repairs and Replacements:

The Association's governing documents require funds to be accumulated for future repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes.

The Association commissioned a study by professional reserve analysts in 2020 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimate of replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated costs and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional amounts are needed, the Association has the right, subject to certain limitations, to increase regular assessments, to levy special assessments, or it may delay major repairs and replacements until sufficient funding is available. The Association budgeted \$18,000 in 2021.

Note 5 - Assessments Receivable:

Assessments receivable at the balance sheet date represent amounts due from members. The Association has the authority to assess late charges and, if necessary, place liens on properties of members whose assessments are delinquent. Association management believes that all assessments receivable at the balance sheet date will be collected in full and accordingly, no allowance for uncollectible accounts is deemed necessary.

Note 6 - Federal Income Taxes:

The Association is taxed as a regular corporation or may elect to be taxed as a homeowners association under Internal Revenue Code Section 528. For the year ended December 31, 2021 the Association elected to be taxed as a homeowners association. Under that election, the Association is taxed only on its nonexempt function income, such as interest income, at homeowner association tax rates. Exempt function income, such as member assessments, is not taxable. The Association's tax returns are generally subject to examination by taxing authorities for three years after the returns are filed. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.



Twin Lakes Homeowners Association

Notes to Financial Statements (Continued)

December 31, 2021

Note 7 - Commitments:

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

Note 8 - Management Company Transactions:

The management company is reimbursed for various administrative costs incurred on behalf of the Association.

Note 9 - Risks and Uncertainties:

The Association's accounts receivable represents payments due from delinquent members. The Association anticipates collecting these balances through its collection efforts, including filing liens and legal actions against these members. The collection of these amounts will be affected by the foreclosure of liens superior to the lien by the Association such as mortgage lien holders, delinquent property tax liens, bankruptcies by the members, etc.

Supplementary Information

Twin Lakes Homeowners Association

Supplementary Information on Future  
Major Repairs and Replacements - Unaudited  
December 31, 2021

The Association commissioned a study by professional reserve analysts 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. The study also includes an inflation rate of three percent and an interest rate of three percent.

The following information is based on the study and presents significant information about the components of common property. The information presented is only an excerpt from the complete study.

See independent auditors' report.

**Table 3.1A: Component Assessment and Valuation**

Note: All numbers provided are the engineer's opinion of probable life and cost in 2020 dollars. Exact numbers may vary.

Component	Quantity	Units	Cost/Unit	Remaining Life (Years)	Useful Life (Years)	Total Cost	Cost per Unit	Avg. Cost per Unit per Year
<b>3.2 SITE</b>								
Replace asphalt walking paths	29,264	SF	\$3.15	19	30	\$92,182	\$68	\$2.26
Replace pond aerators	6	EA	\$650	5	7	\$3,900	\$3	\$0.41
Replace deep well pump beneath Lake Lorene	1	EA	\$75,000	4	10	\$75,000	\$55	\$5.51
Replace Lake Ponce de Leon fountain pump	1	EA	\$13,198	10	10	\$13,198	\$10	\$0.97
Landscaping and irrigation allotment	1	LS	\$25,000	2	5	\$25,000	\$18	\$3.68
Replace 1 of 2 monument signs	1	EA	\$9,726	30	30	\$9,726	\$7	\$0.24
Replace 2 of 2 monument signs	1	EA	\$9,726	14	30	\$9,726	\$7	\$0.24
Replace park signs	4	EA	\$1,500	16	20	\$6,000	\$4	\$0.22
Picnic assets replacement allotment	1	LS	\$10,000	1	5	\$10,000	\$7	\$1.47
Replace dog stations	14	EA	\$450	9	20	\$6,300	\$5	\$0.23
Replace Treasure Island park playground	1	LS	\$75,000	18	20	\$75,000	\$55	\$2.76
Replace shed 1 of 2	1	EA	\$7,100	19	30	\$7,100	\$5	\$0.17
Replace shed 2 of 2	1	EA	\$7,100	28	30	\$7,100	\$5	\$0.17
Replace vehicle 1 of 2	1	EA	\$40,000	1	5	\$40,000	\$29	\$5.88
Replace vehicle 2 of 2	1	EA	\$40,000	3	5	\$40,000	\$29	\$5.88
Replace pole mounted LED lights	9	EA	\$2,500	26	30	\$22,500	\$17	\$0.55
Rebuild bridge in Ponce de Leon park	1	LS	\$12,000	2	25	\$12,000	\$9	\$0.35
<b>3.3 STRUCTURE</b>								
<i>There are no common structures in this development</i>								
<b>3.4 ROOFING</b>								
<i>There are no common roofs in this development</i>								
<b>3.5 EXTERIOR</b>								
<i>There are no common exteriors in this development</i>								
<b>3.6 ELECTRICAL SYSTEMS</b>								
<i>There are no common electrical expenditures within the duration of this report</i>								

Component	Quantity	Units	Cost/Unit	Remaining Life (Years)	Useful Life (Years)	Total Cost	Cost per Unit	Avg. Cost per Unit per Year
<b>3.7 PLUMBING SYSTEMS</b>								
	<i>There are no common plumbing expenditures within the duration of this report</i>							
<b>3.8 HVAC SYSTEMS</b>								
	<i>There are no common HVAC systems in this development</i>							
<b>3.9 ELEVATORS</b>								
	<i>There are no common elevators in this development</i>							
<b>3.10 FIRE DETECTION &amp; SUPPRESSION</b>								
	<i>There are no common fire protection systems in this development</i>							
<b>3.11 COMMON INTERIOR FINISHES</b>								
Furniture, fixtures, and office equipment allotment	1	LS	\$15,000	1	3	\$15,000	\$11	\$3.68
<b>3.12 MISCELLANEOUS MECHANICAL</b>								
	<i>There are no miscellaneous mechanical items not mentioned in other areas of this table</i>							
<b>3.13 AMENITIES</b>								
	<i>There are no amenities not mentioned in other areas of this table</i>							
<b>Average Cost Per Unit Per Year</b>								<b>\$35</b>

### 3.20 SUMMARY OF ANNUAL ANTICIPATED EXPENSES

Using the conclusions described throughout "Section 3.0 Physical Analysis", the following Table 3.20 lists the annual anticipated capital expenses for each reserve item in the year that we believe is most probable. All of these anticipated expenses already have inflation factored into them at the assumed level that is listed in "Section 4.3 Assumptions for Future Interest Rate and Inflation".