

Twin Lakes Homeowners Association

Financial Statements and
Supplementary Information

For the Year Ended December 31, 2019

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Twin Lakes Homeowners Association, which comprise the balance sheet as of December 31, 2019, and the related statements of revenues, expenses, and changes in fund balances 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.

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

INDEPENDENT AUDITORS' REPORT (continued)

Opinion

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, 2019, 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 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, 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 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, Munster & Co., PLLC

Certified Public Accountants
Seattle, Washington

December 30, 2020

Twin Lakes Homeowners Association

Balance Sheet
December 31, 2019

<u>Assets</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash	\$ 349,600	\$ 167,593	\$ 517,193
Assessments receivable - net	60,899		60,899
Unexpired insurance	7,151		7,151
Property and equipment	318,454		318,454
Accumulated depreciation	<u>(198,187)</u>		<u>(198,187)</u>
Total assets	\$ <u>537,917</u>	\$ <u>167,593</u>	\$ <u>705,510</u>
 <u>Liabilities and Fund Balances</u>			
Accounts payable	\$ 8,390	\$	\$ 8,390
Assessments received in advance	<u>77,819</u>		<u>77,819</u>
Total liabilities	\$ 86,209	\$	\$ 86,209
Fund balances	<u>451,708</u>	<u>167,593</u>	<u>619,301</u>
Total liabilities and fund balances	\$ <u>537,917</u>	\$ <u>167,593</u>	\$ <u>705,510</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, 2019

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues:			
Member assessments	\$ 502,560	\$ 36,000	\$ 538,560
Insurance proceeds	19,066		19,066
Other member charges	237,857		237,857
Interest	<u>157</u>	<u>602</u>	<u>759</u>
Total revenues	\$ 759,640	\$ 36,602	\$ 796,242
Expenses:			
Utilities:			
Water and sewer	\$ 6,886	\$	\$ 6,886
Electricity	38,610		38,610
Telephone	2,051		2,051
Cable television	<u>569</u>		<u>569</u>
	\$ 48,116	\$	\$ 48,116
Maintenance:			
General repairs and maintenance	\$ 40,317	\$	\$ 40,317
Grounds and landscaping	186,736		186,736
Fire and safety	<u>61,805</u>		<u>61,805</u>
	\$ 288,858	\$	\$ 288,858
General and administrative:			
Management fees	\$ 48,000	\$	\$ 48,000
Insurance	16,153		16,153
Professional services	49,159		49,159
Personnel costs	176,787		176,787
Uncollectible accounts	5,656		5,656
Depreciation	13,081		13,081
Office and miscellaneous	<u>59,625</u>		<u>59,625</u>
	\$ 368,461	\$	\$ 368,461
Total expenses	\$ 705,435	\$	\$ 705,435
Excess of revenues over expenses	\$ 54,205	\$ 36,602	\$ 90,807
Fund balances at beginning of year	392,223	136,271	528,494
Interfund transfers	<u>5,280</u>	<u>(5,280)</u>	
Fund balances at end of year	<u>\$ 451,708</u>	<u>\$ 167,593</u>	<u>\$ 619,301</u>

See accompanying notes to financial statements.

Twin Lakes Homeowners Association

Statement of Cash Flows
For the Year Ended December 31, 2019

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Excess of revenues over expenses:	\$ 54,205	\$ 36,602	\$ 90,807
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation	13,081		13,081
(Increase) decrease in assets:			
Assessments receivable - net	(21,766)		(21,766)
Unexpired insurance	(1,287)		(1,287)
Increase (decrease) in liabilities:			
Accounts payable	(10,521)		(10,521)
Assessments received in advance	<u>24,342</u>		<u>24,342</u>
Net cash provided (used) by operating activities	\$ <u>58,054</u>	\$ <u>36,602</u>	\$ <u>94,656</u>
Cash flows from financing activities:			
Interfund balances	\$ (1,060)	\$ 1,060	\$
Interfund transfers	<u>5,280</u>	<u>(5,280)</u>	
Net cash provided (used) by financing activities	\$ <u>4,220</u>	\$ <u>(4,220)</u>	\$
Net increase (decrease) in cash	\$ 62,274	\$ 32,382	\$ 94,656
Cash at beginning of year	<u>287,326</u>	<u>135,211</u>	<u>422,537</u>
Cash at end of year	\$ <u><u>349,600</u></u>	\$ <u><u>167,593</u></u>	\$ <u><u>517,193</u></u>
Supplemental disclosure:			
Income taxes paid	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>

See accompanying notes to financial statements.

Twin Lakes Homeowners Association

Notes to Financial Statements December 31, 2019

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.

Twin Lakes Homeowners Association

Notes to Financial Statements (Continued)
December 31, 2019

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

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. Capitalized assets are recorded at cost and depreciated over the estimated useful life using the straight line method of depreciation.

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 and funded \$36,000 in 2019.

Note 5 - Assessments Receivable - Net:

Assessments receivable at the balance sheet date represent amounts due from members and are reported net of any allowance for doubtful accounts. At December 31, 2019, there was an allowance of \$309,000, that was over 90 days delinquent. The Association has the authority to assess late charges and, if necessary, place liens on properties of members whose assessments are delinquent.

Twin Lakes Homeowners Association

Notes to Financial Statements (Continued)
December 31, 2019

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, 2019 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.

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, 2019

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.

Unaudited Supplementary Information

PROFESSIONAL RESERVE STUDY FOR TWIN LAKES HOMEOWNERS ASSOCIATION DATED OCTOBER 19, 2020

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
3.2 SITE								
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
3.3 STRUCTURE								
<i>There are no common structures in this development</i>								
3.4 ROOFING								
<i>There are no common roofs in this development</i>								
3.5 EXTERIOR								
<i>There are no common exteriors in this development</i>								
3.6 ELECTRICAL SYSTEMS								
<i>There are no common electrical expenditures within the duration of this report</i>								

See independent auditors' report.

Unaudited Supplementary Information

PROFESSIONAL RESERVE STUDY FOR TWIN LAKES HOMEOWNERS ASSOCIATION DATED OCTOBER 19, 2020

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

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".

See independent auditors' report.