

Twin Lakes Homeowners Association
Financial Statements and
Supplementary Information
For the Year Ended December 31, 2023



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, 2023, 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, 2023, 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.

NORTH CASCADES CPA PLLC

Certified Public Accountants

July 31, 2024

Twin Lakes Homeowners Association

Balance Sheet
December 31, 2023

<u>Assets</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash	\$ 369,865	\$ 122,990	\$ 492,855
Certificates of deposit		250,608	250,608
Assessments receivable	40,950		40,950
Unexpired insurance	8,926		8,926
Property and equipment	340,354		340,354
Accumulated depreciation	<u>(243,942)</u>		<u>(243,942)</u>
 Total assets	 <u>\$ 516,153</u>	 <u>\$ 373,598</u>	 <u>\$ 889,751</u>
 <u>Liabilities and Fund Balances</u>			
Assessments received in advance	\$ 96,316	\$	\$ 96,316
Federal income tax payable	<u>730</u>		<u>730</u>
 Total liabilities	 \$ 97,046	 \$	 \$ 97,046
 Fund balances	 <u>419,107</u>	 <u>373,598</u>	 <u>792,705</u>
 Total liabilities and fund balances	 <u>\$ 516,153</u>	 <u>\$ 373,598</u>	 <u>\$ 889,751</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, 2023

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues:			
Member assessments	\$ 551,172	\$ 54,000	\$ 605,172
Other member charges	80,047		80,047
Interest	196	7,934	8,130
	<u>631,415</u>	<u>61,934</u>	<u>693,349</u>
Total revenues	\$ 631,415	\$ 61,934	\$ 693,349
Expenses:			
Utilities:			
Water and sewer	\$ 5,715	\$	\$ 5,715
Electricity	43,914		43,914
Telephone	1,352		1,352
Cable television	1,835		1,835
	<u>52,816</u>	<u></u>	<u>52,816</u>
Maintenance:			
General repairs and maintenance	\$ 4,756	\$	\$ 4,756
Grounds and landscaping	105,960	54,400	160,360
Security	150,461		150,461
	<u>261,177</u>	<u>54,400</u>	<u>315,577</u>
General and administrative:			
Management fees	\$ 50,160	\$	\$ 50,160
Insurance	17,898		17,898
Professional services	15,913		15,913
Personnel costs	93,243		93,243
Uncollectible accounts	2,567		2,567
Federal income tax	730		730
Depreciation	3,592		3,592
Office and miscellaneous	54,070		54,070
	<u>238,173</u>	<u></u>	<u>238,173</u>
Total expenses	\$ 552,166	\$ 54,400	\$ 606,566
Excess of revenues over expenses	\$ 79,249	\$ 7,534	\$ 86,783
Fund balances at beginning of year	393,858	312,064	705,922
Interfund transfers	(54,000)	54,000	
Fund balances at end of year	<u>\$ 419,107</u>	<u>\$ 373,598</u>	<u>\$ 792,705</u>

See accompanying notes to financial statements.

Twin Lakes Homeowners Association

Statement of Cash Flows
For the Year Ended December 31, 2023

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Excess of revenues over expenses:	\$ 79,249	\$ 7,534	\$ 86,783
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation	3,592		3,592
(Increase) decrease in assets:			
Assessments receivable	(40,312)		(40,312)
Unexpired insurance	(7,418)		(7,418)
Increase (decrease) in liabilities:			
Accounts payable	(11,019)		(11,019)
Assessments received in advance	11,955		11,955
Federal income tax payable	730		730
Net cash provided (used) by operating activities	<u>\$ 36,777</u>	<u>\$ 7,534</u>	<u>\$ 44,311</u>
Cash flows from investing activities:			
Certificates of deposit	<u>\$</u>	<u>\$ (61,631)</u>	<u>\$ (61,631)</u>
Net cash provided (used) by investing activities	<u>\$</u>	<u>\$ (61,631)</u>	<u>\$ (61,631)</u>
Cash flows from financing activities:			
Interfund transfers	<u>\$ (54,000)</u>	<u>\$ 54,000</u>	<u>\$</u>
Net cash provided (used) by financing activities	<u>\$ (54,000)</u>	<u>\$ 54,000</u>	<u>\$</u>
Net increase (decrease) in cash	\$ (17,223)	\$ (97)	\$ (17,320)
Cash at beginning of year	<u>387,088</u>	<u>123,087</u>	<u>510,175</u>
Cash at end of year	<u>\$ 369,865</u>	<u>\$ 122,990</u>	<u>\$ 492,855</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, 2023

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 1,363 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 an annual assessment 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, 2023

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. If any assets are capitalized, they 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 2023 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 \$54,000 in 2023.

Note 5 - Assessments Receivable:

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, 2023, there was an allowance of \$92,877, and there were one hundred nineteen accounts in the amount of \$92,877 that were 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, 2023

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, 2023 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, 2023

The Association commissioned a study by professional reserve analysts in 2023 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 one 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

**Twin Lakes
Component List**

Asset ID	Description	Useful Life	Adjustment	Remaining Life	Current Cost
Grounds					
1000	Island Concrete - Repair Allotment	3		0	\$7,500
1015	Asphalt Roads - Resurface	Unfunded			
1035	Asphalt Path - Repair & Seal	5		1	\$11,706
1040	Asphalt Path - Grind & Overlay	30		16	\$146,325
1045	Bollards - Replace	30		26	\$9,450
1055	Bridge - Repair/Replace	25		0	\$12,000
1060	Monument Signage - Refurbish	10		0	\$12,000
1065	Bulletin Boards - Replace	20		6	\$7,500
1070	Mailboxes - Replace	Unfunded			
1090	Chain Link Fence - Replace	20		0	\$19,250
1135	Landscape - Refurbish Allotment	5		4	\$10,000
1150	Bark/Mulch - Replenish	3		2	\$1,200
1155	Irrigation System - Repair Allotment	5		4	\$5,000
1160	Drainage System - Maintain	Unfunded			
1170	Street Lights - Replace	Unfunded			
1175	Pole Lights - Replace	30		27	\$24,000
1190	Aerator Unit/Heads - Replace (Lake Lorene)	10		5	\$10,800
1195	Aerator Unit/Heads - Replace (Lake Ponce)	10		8	\$12,200
1200	Fountain Pump/Head - Replace (Lake Ponce)	10		8	\$16,000
1205	Aerator Unit/Heads - Replace (Lake Jeanne)	Unfunded			
1210	Retaining Wall - Repair	Unfunded			
1230	Shed - Replace (Small)	30		6	\$8,500
1235	Shed - Replace (Large)	30		25	\$11,600
Recreation					
2000	Play Equipment - Replace	20		17	\$100,000
2005	Wood Chips - Replenish	3		2	\$5,000
2010	Outdoor Furniture - Replace (TI Park)	20		17	\$36,100
2011	Outdoor Furniture - Replace (Ponce Park)	30		1	\$15,700
2015	Pet Stations - Replace	12		0	\$7,000
2020	Wood Privacy Screen - Replace	Unfunded			
2025	Wood Park Signage - Replace	20		0	\$10,800

Unaudited Supplementary Information

**Twin Lakes
Component List**

Asset ID	Description	Useful Life	Adjustment	Remaining Life	Current Cost
Equipment & Mechanical					
5000	Electrical System - Repair/Replace	15		13	\$3,400
5005	Plumbing System - Repair/Replace	Unfunded			
5015	Office Equipment & Fixtures - Replace	3		0	\$15,000
5020	Vehicle - Replace (Toyota C-HR)	5		3	\$25,100
5025	Vehicle - Replace (Hyundai Venue)	5		4	\$28,500
Professional					
6005	Reserve Study - Annual Update	Unfunded			