

Lakeside Village Homeowners Association

Financial Statements and
Supplementary Information

For the Year Ended December 31, 2020

STANFORD, MUNKO & Co., P.L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS
5720 204TH STREET SW, SUITE 100
LYNNWOOD, WASHINGTON 98036-7554
TELEPHONE (206) 283-1627
FAX (206) 283-9761

DAVID A. MUNKO, C.P.A.
JAMES H. POWERS, C.P.A.
BRIAN J. BOTNEN, C.P.A.
CHRIS J. SULLIVAN, C.P.A.
ANTHONY MUNKO, C.P.A.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Lakeside Village Homeowners Association
Federal Way, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Lakeside Village Homeowners Association, which comprise the balance sheet as of December 31, 2020, 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 Lakeside Village Homeowners Association as of December 31, 2020, 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

June 3, 2021

Lakeside Village Homeowners Association

Balance Sheet
December 31, 2020

<u>Assets</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash	\$ 57,158	\$ 368,969	\$ 426,127
Assessments receivable - net	4,000	4,079	8,079
Unexpired insurance	<u>14,442</u>	<u></u>	<u>14,442</u>
Total assets	<u>\$ 75,600</u>	<u>\$ 373,048</u>	<u>\$ 448,648</u>
 <u>Liabilities and Fund Balances</u>			
Accounts payable	\$ 11,140	\$	\$ 11,140
Assessments received in advance	<u>11,792</u>	<u></u>	<u>11,792</u>
Total liabilities	\$ 22,932	\$	\$ 22,932
Fund balances	<u>52,668</u>	<u>373,048</u>	<u>425,716</u>
Total liabilities and fund balances	<u>\$ 75,600</u>	<u>\$ 373,048</u>	<u>\$ 448,648</u>

See accompanying notes to financial statements.

Lakeside Village Homeowners Association

Statement of Revenues, Expenses
and Changes in Fund Balances
For the Year Ended December 31, 2020

	Operating Fund	Replacement Fund	Total
Revenues:			
Member assessments	\$ 291,850	\$ 88,418	\$ 380,268
Special assessment		40,000	40,000
Other member charges	10,435		10,435
Interest	24	718	742
Total revenues	\$ 302,309	\$ 129,136	\$ 431,445
Expenses:			
Utilities:			
Water and sewer	\$ 45,873	\$	\$ 45,873
Garbage	35,185		35,185
Electricity and natural gas	7,232		7,232
Cable television	34,055		34,055
Telephone	775		775
	\$ 123,120	\$	\$ 123,120
Maintenance:			
General repairs and maintenance	\$ 28,048	\$	\$ 28,048
Grounds and landscaping	38,574		38,574
Janitorial and cleaning	9,900		9,900
Pool	8,777		8,777
Pest control	4,473		4,473
Fire and safety	4,213		4,213
Major repairs		23,236	23,236
	\$ 93,985	\$ 23,236	\$ 117,221
General and administrative:			
Management fees	\$ 27,320	\$	\$ 27,320
Insurance	49,796		49,796
Professional services	10,587		10,587
Uncollectible accounts	5,460		5,460
Office and miscellaneous	2,921		2,921
	\$ 96,084	\$	\$ 96,084
Total expenses	\$ 313,189	\$ 23,236	\$ 336,425
Excess (deficit) of revenues over expenses	\$ (10,880)	\$ 105,900	\$ 95,020
Fund balances at beginning of year	63,965	266,731	330,696
Interfund transfers	(417)	417	
Fund balances at end of year	\$ 52,668	\$ 373,048	\$ 425,716

See accompanying notes to financial statements.

Lakeside Village Homeowners Association

Statement of Cash Flows
For the Year Ended December 31, 2020

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Excess (deficit) of revenues over expenses:	\$ (10,880)	\$ 105,900	\$ 95,020
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in assets:			
Assessments receivable - net	6,421	(267)	6,154
Unexpired insurance	1,897		1,897
Increase (decrease) in liabilities:			
Accounts payable	8,103		8,103
Assessments received in advance	3,434		3,434
Net cash provided (used) by operating activities	\$ <u>8,975</u>	\$ <u>105,633</u>	\$ <u>114,608</u>
Cash flows from financing activities:			
Interfund balances	\$ (8,000)	\$ 8,000	\$
Interfund transfers	<u>(417)</u>	<u>417</u>	
Net cash provided (used) by financing activities	\$ <u>(8,417)</u>	\$ <u>8,417</u>	\$
Net increase (decrease) in cash	\$ 558	\$ 114,050	\$ 114,608
Cash at beginning of year	<u>56,600</u>	<u>254,919</u>	<u>311,519</u>
Cash at end of year	\$ <u><u>57,158</u></u>	\$ <u><u>368,969</u></u>	\$ <u><u>426,127</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.

Lakeside Village Homeowners Association

Notes to Financial Statements December 31, 2020

Note 1 - Nature of Organization:

Lakeside Village Homeowners Association is a statutory homeowner association incorporated as a nonprofit organization in the state of Washington December 15, 2004. The Association is responsible for the operation and maintenance of the common property of Lakeside Village which consists of seventy eight residential units located in Federal Way, Washington. The Association is subject to certain provisions of the Washington Homeowners' Associations Act, RCW Chapter 64.38.

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. This fund includes a savings account used to accumulate financial resources designated for insurance expenditures. 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.

Lakeside Village Homeowners Association

Notes to Financial Statements (Continued)
December 31, 2020

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. There is no capitalized personal property at the end of the year.

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 \$88,418 in 2020.

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.

Lakeside Village Homeowners Association

Notes to Financial Statements (Continued)
December 31, 2020

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, 2020 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 - Special Assessment:

During the year ended December 31, 2020, the Association approved a \$40,000 special assessment for unbudgeted common area expenses.

Note 8 - Commitments:

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

Note 9 - Management Company Transactions:

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

Note 10 - 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.