

**LAKE MARCEL COMMUNITY CLUB
INDEPENDENT AUDITOR'S REPORT
AND
AUDITED FINANCIAL STATEMENTS
FOR THE
YEAR ENDED DECEMBER 31, 2021
AND
UNAUDITED SUPPLEMENTARY INFORMATION**

LAKE MARCEL COMMUNITY CLUB

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Joseph H. Vandal, CPA, PS

Member of American Institute of CPAs, Washington Society of CPAs
A Professional Service Corporation

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
Lake Marcel Community Club

We have audited the accompanying financial statements of Lake Marcel Community Club, 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 Lake Marcel Community Club 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 Lake Marcel Community Club 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 Lake Marcel Community Club'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 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 Lake Marcel Community Club'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 Lake Marcel Community Club'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 pages 11-12 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

April 18, 2023

LAKE MARCEL COMMUNITY CLUB
BALANCE SHEET
December 31, 2021

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash-Checking	\$ 64,308	\$ 127,677	\$ 191,985
Assessments Receivable	25,408	-	25,408
Allowance for Doubtful Accounts	(24,943)	-	(24,943)
Prepaid Insurance	1,576	-	1,576
Fixed Assets	164,907	-	164,907
Accumulated Depreciation	<u>(94,992)</u>	<u>-</u>	<u>(94,992)</u>
Total Assets	<u>\$ 136,264</u>	<u>\$ 127,677</u>	<u>\$ 263,941</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
Payroll Liabilities	\$ 694	\$ -	\$ 694
Prepaid Assessments	<u>2,397</u>	<u>-</u>	<u>2,397</u>
Total Liabilities	3,091	-	3,091
Fund Balance	<u>133,173</u>	<u>127,677</u>	<u>260,850</u>
Total Liabilities & Fund Balance	<u>\$ 136,264</u>	<u>\$ 127,677</u>	<u>\$ 263,941</u>

LAKE MARCEL COMMUNITY CLUB
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND BALANCE
For the Year Ended December 31, 2021

	OPERATING FUND	REPLACEMENT RESERVE FUND	TOTAL
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Assessments			
Regular	\$ 102,969	\$ 15,000	\$ 117,969
Other	6,250	-	6,250
Interest	-	73	73
TOTAL REVENUE	<u>109,219</u>	<u>15,073</u>	<u>124,292</u>
EXPENSES			
Management Fee	5,930	-	5,930
Administration	9,918	-	9,918
Professional Services	1,857	-	1,857
Licenses and Permits	10	-	10
Property Taxes	4,440	-	4,440
Insurance	9,285	-	9,285
Payroll Expense	30,419	-	30,419
Repairs and Maintenance	16,747	-	16,747
Aquatics	4,589	-	4,589
Utilities	8,039	-	8,039
Depreciation	640	-	640
Bad Debt	5,592	-	5,592
TOTAL EXPENSES	<u>97,466</u>	<u>-</u>	<u>97,466</u>
REVENUES OVER/(UNDER) EXPENSES	11,753	15,073	26,826
BEGINNING FUND BALANCE	166,259	67,765	234,024
Transfer to (from)	<u>(44,839)</u>	<u>44,839</u>	<u>-</u>
ENDING BALANCE	<u>\$ 133,173</u>	<u>\$ 127,677</u>	<u>\$ 260,850</u>

LAKE MARCEL COMMUNITY CLUB
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2021

	OPERATING FUND	REPLACEMENT RESERVE FUND	TOTAL
<u>CASH FLOWS FROM OPERATING</u>			
<u>ACTIVITIES</u>			
REVENUE OVER/(UNDER) EXPENSES	\$ 11,753	\$ 15,073	\$ 26,826
Adjustments to reconcile excess of expenses over revenues to net cash provided by activities:			
Depreciation	639	-	639
(Increase) Decrease in:			
Assessments Receivable	(411)	-	(411)
Prepaid Insurance	506	-	506
Increase (Decrease) in:			
Payroll Liabilities	(180)	-	(180)
Prepaid Assessments	(63,171)	-	(63,171)
<u>NET CASH PROVIDED BY</u>			
<u>OPERATING ACTIVITIES</u>	<u>(50,864)</u>	<u>15,073</u>	<u>(35,791)</u>
<u>CASH FLOWS FROM</u>			
<u>FINANCING ACTIVITIES</u>			
Interfund transfers	(44,839)	44,839	-
<u>NET CASH (USED) PROVIDED</u>			
<u>BY FINANCING ACTIVITIES</u>	<u>(44,839)</u>	<u>44,839</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH & EQUIVALENTS	(95,703)	59,912	(35,791)
CASH & EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>160,011</u>	<u>67,765</u>	<u>227,776</u>
CASH & EQUIVALENTS AT END OF THE PERIOD	<u>\$ 64,308</u>	<u>\$ 127,677</u>	<u>\$ 191,985</u>

LAKE MARCEL COMMUNITY CLUB
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE A – NATURE OF ORGANIZATION

Lake Marcel Community Club is a Non-Profit Corporation in the State of Washington organized and incorporated in 1965 as Lake Marcel Country Club, Inc., and changed their name in 1974 to Lake Marcel Community Club. The Association is responsible for the operation and maintenance of the common property of Lake Marcel Community Club. Lake Marcel Community Club consists of 398 residential lots located in Carnation, 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 April 18, 2023, 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.

**LAKE MARCEL COMMUNITY CLUB
NOTES TO FINANCIAL STATEMENTS
December 31, 2021**

NOTE C-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Member Assessments

Association members are subject to monthly 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 \$24,943.

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-COMMITMENTS

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

LAKE MARCEL COMMUNITY CLUB
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE E-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.

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 \$127,677 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 in 2022 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.

**LAKE MARCEL COMMUNITY CLUB
NOTES TO FINANCIAL STATEMENTS
December 31, 2021**

NOTE G-ACCOUNTS RECEIVABLE

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

	<u>Operating Fund</u>
Assessments	\$ 25,408
Allowance for Doubtful Accounts	<u>(24,974)</u>
	<u>\$ 434</u>

Bad debt expense for the year ended December 31, 2021 was \$5,592.

NOTE H-FIXED ASSETS

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

	<u>Operating Fund</u>
Land	\$ 58,803
Buildings	14,768
Beach Improvements	72,913
Equipment	4,597
Playground Equipment	13,825
Accumulated Depreciation	<u>(94,353)</u>
	<u>\$ 70,553</u>

Current year depreciation for the year ended December 31, 2021, was \$640.

SUPPLEMENTARY INFORMATION

LAKE MARCEL COMMUNITY CLUB
UNAUDITED SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS
December 31, 2021

A specialist conducted a study in 2022 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 pages 11-12 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 PAGES 11-12

UNAUDITED SUPPLEMENTARY INFORMATION

PROFESSIONAL RESERVE STUDY FOR LAKE MARCEL COMMUNITY CLUB DATED OCTOBER 6, 2022

Table 3.1A: Component Assessment and Valuation

Note: All numbers provided are the engineer's opinion of probable life and cost in 2022 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 wood fencing	946	LF	\$29.50	8	20	\$27,907	\$70	\$3.51
Replace beach 1 play structure	1	LS	\$10,074	18	20	\$10,074	\$25	\$1.27
Replace beach 1 jungle gym	1	LS	\$8,000	18	20	\$8,000	\$20	\$1.01
Replace beach 1 swing set	1	LS	\$6,000	18	20	\$6,000	\$15	\$0.75
Replace beach 2 jungle gym	1	LS	\$14,000	18	20	\$14,000	\$35	\$1.76
Replace beach 2 swing set	1	LS	\$6,000	18	20	\$6,000	\$15	\$0.75
Replace play chips	1	LS	\$2,000	2	5	\$2,000	\$5	\$1.01
Replace the slide gate and support at the dam	1	LS	\$40,000	18	40	\$40,000	\$101	\$2.51
Slide gate inspection and underwater inspection of all docks	1	LS	\$4,200	1	5	\$4,200	\$11	\$2.11
Replace all four docks	1	LS	\$160,000	30	50	\$160,000	\$402	\$8.04
<i>All roads in this community are owned by King County</i>								
<i>Picnic assets are maintained via the general operating budget</i>								
<i>Landscaping maintained via the general operating budget</i>								
<i>Annual milfoil mitigation should be budgeted for in the annual operating budget</i>								
3.3 STRUCTURES								
<i>We believe that all structures should have a lifespan beyond the duration of this study if properly maintained</i>								
3.4 ROOFING								
<i>Standing seam metal roof surfaces should have a lifespan beyond the duration of this study</i>								
3.5 EXTERIOR								
<i>We understand that the exteriors of all buildings are maintained and painted by volunteers and supplies are paid for via the general operating budget</i>								
3.6 ELECTRICAL SYSTEMS								
<i>No significant electrical expenditures anticipated</i>								
3.7 PLUMBING SYSTEMS								
<i>No significant plumbing expenditures anticipated</i>								
3.8 HVAC SYSTEMS								
<i>No significant common HVAC systems</i>								

See Independent Auditor's Report and Notes to Financial Statements

UNAUDITED SUPPLEMENTARY INFORMATION

PROFESSIONAL RESERVE STUDY FOR LAKE MARCEL COMMUNITY CLUB DATED OCTOBER 6, 2022

Component	Quantity	Units	Cost/Unit	Remaining Life (Years)	Useful Life (Years)	Total Cost	Cost per Unit	Avg. Cost per Unit per Year
3.9 ELEVATORS								
<i>No elevators on property</i>								
3.10 FIRE DETECTION & SUPPRESSION								
<i>No significant fire detection and suppression systems on property</i>								
3.11 COMMON INTERIOR FINISHES								
Office renovation	1	LS	\$4,000	2	20	\$4,000	\$10	\$0.50
3.12 MISCELLANEOUS								
<i>Office equipment, computers, and furniture are maintained entirely via the annual operating budget</i>								
<i>Surveillance system is maintained and upgraded entirely via the annual operating budget</i>								
3.13 AMENITIES								
<i>No amenities not mentioned in other areas of this table</i>								
Average Cost Per Unit Per Year								\$23.21

See Independent Auditor's Report and Notes to Financial Statements
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