

LAKE JANE ESTATES, INC.

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2023

Draft - For discussion purposes only.

DNM & Associates, P.S.  
Certified Public Accountants  
Olympia, Washington

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Lake Jane Estates, Inc.  
Bonney Lake, Washington

### **Opinion**

We have audited the accompanying financial statements of Lake Jane Estates, Inc., which comprise the balance sheet as of June 30, 2023, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lake Jane Estates, Inc. as of June 30, 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lake Jane Estates, Inc. 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 Lake Jane Estates, Inc.'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 the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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 Jane Estates, Inc.'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 Jane Estates, Inc.'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.

## **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of the Association's management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

## **Disclaimer of Opinion on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page 14 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 not audited, reviewed, or compiled the required supplementary information, and, accordingly, we do not express an opinion or provide any assurance on it.

Olympia, Washington  
June xx, 2024

LAKE JANE ESTATES, INC.  
BALANCE SHEET  
JUNE 30, 2023

	Operating Fund	Replacement Fund	Total
<b>ASSETS</b>			
CURRENT ASSETS			
Cash and cash equivalents	\$ 206,018	\$ 62,547	\$ 268,565
Accounts receivable	36,810	-	36,810
Total Current Assets	242,828	62,547	305,375
PROPERTY AND EQUIPMENT, NET	153,110	-	153,110
Total Assets	\$ 395,938	\$ 62,547	\$ 458,485
<b>LIABILITIES AND FUND BALANCES</b>			
CURRENT LIABILITIES			
Accounts payable	\$ 4,058	\$ -	\$ 4,058
Accrued wages	178	-	178
Accrued payroll taxes	1,827	-	1,827
Accrued federal income tax	520	-	520
Prepaid assessments	100,871	-	100,871
Total Current Liabilities	107,454	-	107,454
FUND BALANCES	288,484	62,547	351,031
Total Liabilities and Fund Balances	\$ 395,938	\$ 62,547	\$ 458,485

*See accompanying notes and independent auditor's report.*

LAKE JANE ESTATES, INC.  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2023

	Operating Fund	Replacement Fund	Total
<b>REVENUES</b>			
Regular assessments	\$ 185,087	\$ 3,730	\$ 188,817
Guest fees	18,986	-	18,986
Fees and finance charges	3,184	-	3,184
Other income	7,804	-	7,804
Interest	3,964	77	4,041
	<u>219,025</u>	<u>3,807</u>	<u>222,832</u>
<b>EXPENSES</b>			
Administrative expenses	73,679	-	73,679
Lake expenses	20,903	-	20,903
Park expenses	56,038	-	56,038
Pool expenses	65,190	-	65,190
	<u>215,810</u>	<u>-</u>	<u>215,810</u>
Excess of Revenues over Expenses	<u>3,215</u>	<u>3,807</u>	<u>7,022</u>
FUND BALANCE, beginning of year	<u>285,269</u>	<u>58,740</u>	<u>344,009</u>
FUND BALANCE, end of year	<u>\$ 288,484</u>	<u>\$ 62,547</u>	<u>\$ 351,031</u>

*See accompanying notes and independent auditor's report.*

LAKE JANE ESTATES, INC.  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2023

	Operating Fund	Replacement Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess of revenues over expenses	\$ 3,215	\$ 3,807	\$ 7,022
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities			
operating activities			
Depreciation	20,324	-	20,324
(Increase) decrease in:			
Accounts receivable	(1,673)	-	(1,673)
Increase (decrease) in:			
Accounts payable	(4,417)	-	(4,417)
Accrued wages	(2,428)	-	(2,428)
Accrued payroll taxes	(1,052)	-	(1,052)
Accrued federal income tax	520	-	520
Prepaid assessments	9,388	-	9,388
Net Cash Provided by Operating Activities	<u>23,877</u>	<u>3,807</u>	<u>27,684</u>
Net Increase in Cash and Cash Equivalents	23,877	3,807	27,684
Cash and Cash Equivalents, beginning of year	<u>182,141</u>	<u>58,740</u>	<u>240,881</u>
Cash and Cash Equivalents, end of year	<u>\$ 206,018</u>	<u>\$ 62,547</u>	<u>\$ 268,565</u>

*See accompanying notes and independent auditor's report.*



LAKE JANE ESTATES, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2023

**NOTE 1 NATURE OF THE ASSOCIATION**

Lake Jane Estates, Inc. (the Association) is a statutory homeowners' association organized for purposes of maintaining and preserving the common areas of Lake Jane Estates. Responsibilities of the Association include building and improving roadways, bridle trails, bridges, drainage areas, boats and landings, stocking the lake with fish, and regulating building activity by Association members. The Association was incorporated in the State of Washington in 1959, and consists of 444 lots in Bonney Lake, Washington.

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES**

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observation 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 on the following funds established according to their nature and purpose:

Operating Fund

This fund is used to account for 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.

Basis of Accounting

The Association's accounts are maintained, and financial statements prepared, using the accrual basis of accounting. This basis recognizes revenues when earned and expenses when incurred.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term highly liquid investments with original maturities of three months or less.

LAKE JANE ESTATES, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2023

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Assessments and Other Revenue Recognition

The Association receives revenue from members' regular assessments, including penalties and fines. The Association also receives revenue from the sale of goods, services, and renting the Association's facilities. Revenue is recognized as services or products are delivered.

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Any excess assessments at the year-end are retained by the Association for use in the succeeding year.

The Association generally charges interest or late fees on outstanding balances according to its By-laws. The Association's policy is to retain legal counsel, send accounts to collections, and place liens on the property of members whose assessments are significantly delinquent. All costs incurred by the Association to collect delinquent accounts are billed back to the member. Collection of past due amounts is generally achieved at the time properties are sold.

Accounts Receivable

Accounts receivable at the balance sheet date represents amounts due from members less an allowance estimated by management. The Association evaluates its accounts receivable and establishes an allowance for collection agency fees based on a review of all member accounts 90 days or more past due, and terms of the agreement with the collection agency. The evaluation of individual accounts includes consideration of recent payment history, current disputes, and other pertinent information known by management. Management determined that no allowance for doubtful accounts was necessary at June 30, 2023.

Property and Equipment

Property and equipment are carried at cost. When retired or otherwise disposed of, the related carrying value and accumulated depreciation are removed from the respective accounts and the difference, less any amount realized from disposition, is reflected in earnings. Maintenance and repairs are charged to operating expenses. Costs of significant improvements and renewals are capitalized.

For financial statement purposes, depreciation is provided using the straight-line method over the estimated useful lives of the assets. For federal income tax purposes, depreciation is provided using methods and lives prescribed by applicable tax laws.

LAKE JANE ESTATES, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2023

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Property and Equipment (Continued)

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

The Association incurred depreciation expense of \$20,324 for the year ended June 30, 2023.

Federal Income Taxes

Homeowners' associations may be taxed either as homeowners' associations in accordance with Internal Revenue Service Section 528 or as regular corporations. For the year ended June 30, 2023, the Association elected to file as a homeowners' association. For the year ended June 30, 2023, the Association incurred federal income tax of \$520.

Management of the Association has evaluated the Association's tax positions and has concluded that the Association has taken no uncertain tax positions that require adjustment to the financial statements to comply with the authoritative guidance from Financial Accounting Standards Board ASC 740 for disclosure of uncertain tax positions. This guidance requires the Association to analyze all open tax years, as defined by the statutes of limitations, for all major jurisdictions.

Interest Income

Interest income is recognized when earned and is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

LAKE JANE ESTATES, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2023

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Adoption of New Lease Standard

Effective July 1, 2022, the Association adopted Accounting Standards Update (ASU) 2016-02, *Leases*. Under ASU 2016-02, an entity recognizes right-of-use assets and lease obligations on its balance sheet for all leases with a lease term of more than 12 months. Short-term rentals under year-to-year leases or remaining lease terms of 12 months or less are exempt from being capitalized. There were no leases in effect at the adoption date, so no capitalization was required.

Subsequent Events

Management of the Association has evaluated subsequent events through June xx, 2024, the date on which the financial statements were available to be issued.

**NOTE 3 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents balances at June 30, 2023, were as follows:

	Operating Fund	Replacement Fund	Total
Checking	\$ 107,499	\$ -	\$ 107,499
Money market	86,694	62,547	149,241
Undeposited funds	11,825	-	11,825
	\$ 206,018	\$ 62,547	\$ 268,565

**NOTE 4 PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2023, consisted of the following:

Upper park	\$ 296,979
Lower park	227,694
	524,673
Less accumulated depreciation	(371,563)
	\$ 153,110

LAKE JANE ESTATES, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2023

**NOTE 5 COMMITMENTS**

The Association entered into a two-year landscaping agreement with Pacific Total Grounds & Maintenance LLC effective July 1, 2023. Pacific Total Grounds & Maintenance LLC is responsible for the overall appearance of landscape areas including vegetation and planting beds, trees, shrubs, bushes, and lawns. The monthly charge is \$3,274. Additional charges may be incurred as specified in the contract.

**NOTE 6 CONCENTRATIONS OF CASH AND CREDIT RISK**

Concentrations of Cash and Cash Equivalents Balances

The Association maintains its cash in bank checking and money market accounts which, at times, may exceed federally insured limits. Management does not believe that the Association is exposed to any significant credit risk on cash.

Concentrations of Credit Risk and Accounts Receivable

Credit risk with respect to accounts receivable is concentrated geographically to Western Washington. The Association had accounts receivable at June 30, 2023, equal to 8% of total assets. Management believes the Association is fully protected from accounts becoming uncollectible through the placement of liens on the property of members whose assessments become significantly delinquent.

**NOTE 7 OWNERS' ASSESSMENTS**

The annual budget and members' assessments are determined by the Board of Trustees. The Association retains excess operating funds, if any, at the end of the operating year for use in future operating periods.

LAKE JANE ESTATES, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2023

**NOTE 8 FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds of \$62,547 at June 30, 2023, are held in a separate account and are not available for operating purposes. The Association is responsible for common property such as parkways, playgrounds, open spaces and recreational areas, tennis courts, beaches, boat landings, floats, piers, clubhouses, and community facilities.

An independent engineering firm conducted a study in August 2022 to estimate the remaining useful lives and the replacement costs of the components of common property. Management of the Association uses the results of the annual independent studies performed to determine the adequacy of the accumulated reserve for future repairs and replacements. If additional funds are needed, the Board of Trustees of the Association has the right, subject to limitations of its authority as 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.

The supplemental information shown on page 14 is based on the reserve study conducted in August 2022 and presents significant information about the components of common property.

Draft - For discussion purposes only.

**Supplementary Information**

LAKE JANE ESTATES, INC.  
SCHEDULE OF ASSOCIATION EXPENSES  
YEAR ENDED JUNE 30, 2023

ADMINISTRATIVE EXPENSES

Salaries and wages	\$ 25,323
Depreciation	20,324
Payroll taxes	6,946
Audit fees	6,825
Insurance	5,601
Attorney fees	2,835
Office expense	2,049
Software	1,101
Postage	970
Reserve study	870
Federal income tax	520
Community activity	358
Bad debt	132
Lien fees	(175)
	<u>\$ 73,679</u>

LAKE EXPENSES

Landscape maintenance	\$ 11,775
Fish plants	6,252
Electricity	2,151
Water treatment	725
	<u>\$ 20,903</u>

PARK EXPENSES

Landscape maintenance	\$ 28,051
Repairs and maintenance	18,910
Electricity	4,726
Utilities	4,351
	<u>\$ 56,038</u>

POOL EXPENSES

Wages	\$ 33,423
Utilities	13,320
Chemicals	5,537
Monthly service	4,622
Repairs and maintenance	4,538
Concessions	2,448
Supplies	782
Permit	520
	<u>\$ 65,190</u>



LAKE JANE ESTATES, INC.  
SCHEDULE OF FUTURE MAJOR REPAIRS AND  
REPLACEMENTS (UNAUDITED)  
JUNE 30, 2023

Reserve Study Group, an independent engineering firm, conducted a study in August 2022 to estimate the remaining useful lives and the replacement costs of the components of common property. Future replacement costs are based on the remaining useful lives of the components, and consider an annual inflation rate of 3% and after-tax interest of 1% over a 30 year period. The following table is based on the study and presents significant information about the components of common property.

Component Description	Useful Life	Remaining Useful Life	Current Replacement Cost	Future Replacement Cost
Building Exterior - Pool House, Roof, Replace	25	13	\$8,100	\$11,895
Building Exterior - Pool House, Gutters & Downspouts	25	13	700	1,028
Building Exterior - Pool House, Caulk & Paint	10	5	4,000	4,637
Building Exterior - Pool House, Siding, Replace	40	15	23,205	36,153
Building Exterior - Pool House, Windows & Doors	10	5	2,175	2,521
Building Exterior - Pool House, Remodel	20	15	24,100	37,547
Plumbing - Water Heater	15	7	1,575	1,937
General Site - Pool, Repair & Resurface	15	2	29,900	31,721
General Site - Pool, Coping, Replace	30	2	20,700	21,961
General Site - Pool, Equipment, Pumps & Filters	5	3	5,675	6,201
General Site - Pool, Equipment, Heater	15	4	6,650	7,485
General Site - Concrete Sidewalk, 5% Limited Repair	10	2	3,789	4,020
General Site - Landscape, Tree Felling & Removal	2	0	10,000	10,000
General Site - Lake, Inspection & Treatment	3	1	14,900	15,347
General Site - Bridge @ Lake Debra Jane, Replace	50	25	57,000	119,345
General Site - Fence, Chain Link 10'	30	7	18,500	22,753
General Site - Fence, Chain Link 6'	30	7	36,050	44,337
General Site - Fence, Chain Link 4'	30	17	36,120	59,701
General Site - Fence, Wood Split Rail	20	7	1,175	1,445
General Site - Gate, Boat Launch, Replace	30	25	22,500	47,110
General Site - Gate, Upper Park Pool, Repair	10	7	1,825	2,245
General Site - Gate, Lower Park, Repair	3	2	2,050	2,175
General Site - Paving, Replace @ Lower Park	20	8	8,750	9,561
General Site - Playground, Equipment @ Upper Park	20	8	43,700	55,358
General Site - Playground, Equipment @ Lower Park	20	15	17,500	27,264
General Site - Playground, Surface Material	4	0	2,975	2,975
General Site - Equipment, Seating, Picnic Tables	3	0	2,175	2,175
General Site - Basketball Court, Color Coat & Repair	8	3	5,625	6,147
General Site - Tennis Court, Color Coat & Repair	8	3	11,400	12,457
General Site - Park Shelters, Maintenance & Repair	10	5	3,300	3,826
General Site - Signage, Miscellaneous	5	3	1,075	1,175
General Site - Dog Park	20	16	14,000	22,466
Total			<u>\$ 441,189</u>	