

WALKER LAKESHORES LANDOWNERS ASSOCIATION

MANAGEMENT ADVISORY LETTER

DECEMBER 31, 2021

Zavada & Associates

Certified Public Accountants

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Certified Public Accountants

1089 Wyoming Avenue
Forty Fort, PA 18704-4002
Telephone: 570-288-3201
Fax: 570-288-3203
E-mail: ZavadaandAssoc@aol.com

Board of Directors
Walker Lakeshores Landowners Association
Shohola, PA

Members of the Board:

We have audited the financial statements of Walker Lakeshores Landowners Association for the year ended December 31, 2021, and have issued our report thereon dated October 25, 2022.

We noted the following:

Cash Basis Audit Report

Because of the continuing situation with the accounts receivable, it still was not feasible to conduct the audit on anything other than a cash basis for 2021. An approach to cleaning up Accounts Receivable balances should be discussed. There is a potential for accrual basis financial statements going forward, starting in 2022.

We would be glad to answer any additional questions or assist in any other items that might arise in the future.

This communication is intended solely for the information and use of management, Board of Directors, and others within the Association, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Zavada & Associates". The signature is written in a cursive, flowing style with a large initial 'Z'.

Forty Fort, Pennsylvania
October 25, 2022

WALKER LAKESHORES LANDOWNERS ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Walker Lakeshores Landowners Association
100 Walker Lake Road
Shohola, PA 18458-2416

Opinion

We have audited the accompanying financial statements of Walker Lakeshores Landowners Association, which comprise of the statement of assets, liabilities and net assets – cash basis as of December 31, 2021, and the related statements of revenues collected, expenses paid, and changes in net assets – cash basis 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 Walker Lakeshores Landowners Association as of December 31, 2021, and the results of its operations 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 Walker Lakeshores Landowners 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 Walker Lakeshores Landowners Association'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 Walker Lakeshores Landowners 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 Walker Lakeshores Landowners 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 information about future major repairs and replacements of common property on page 8 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.



Zavada & Associates, CPAs
Forty Fort, PA
October 25, 2022

**WALKER LAKESHORES LANDOWNERS ASSOCIATION
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS – CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2021**

ASSETS

Cash	\$ <u>301,723</u>
Total Assets	\$ <u><u>301,723</u></u>

LIABILITIES AND NET ASSETS

Line of credit	\$ 22,000
Loan payable, Wayne Bank	<u>4,898</u>
Total Liabilities	\$ <u>26,898</u>
Net Assets	\$ <u>274,825</u>
Total Liabilities and Net Assets	\$ <u><u>301,723</u></u>

See accompanying notes and independent auditor's report.

WALKER LAKESHORES LANDOWNERS ASSOCIATION
STATEMENTS OF REVENUES COLLECTED, EXPENSES PAID AND CHANGES IN
NET ASSETS – CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2021

Revenues Collected:	
Assessments and membership fees	\$ 253,844
Interest	106
Social	279
Advertisement Sales	100
Capital Improvement Fees	11,245
Other Revenue	<u>23,365</u>
Total Revenues	<u>\$ 288,939</u>
Expenses Paid:	
Accounting	\$ 6,758
Bank Charges	275
Beach & Grounds	13,727
Clubhouse	1,433
Computer	368
Dam Expenses	3,650
Dues & Subscriptions	456
Insurance	15,530
Interest	1,972
Lake Expenses	15,762
Legal & Professional	6,781
Miscellaneous	100
Office	3,526
Payroll	16,149
Payroll Taxes	1,731
Postage	1,231
Repairs & Maintenance	1,515
Road Repairs	69,642
Security	13,598
Snow Plowing	63,593
Social	139
Supplies	277
Telephone	1,346
Utilities	4,564
Waste Removal	<u>555</u>
Total Expenses	<u>244,678</u>
Increase/(Decrease) in Net Assets	44,261
Net Assets – Beginning	<u>230,564</u>
Net Assets – Ending	<u>\$ 274,825</u>

See accompanying notes and independent auditor's report.

**WALKER LAKESHORES LANDOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Business

The Association is a Pennsylvania nonprofit association formed to represent property owners in the Walker Lakeshores Landowners Association. Walker Lakeshores consists of approximately 500 properties located in Shohola, Pike County, Pennsylvania.

Basis of Accounting

The Association's financial statements are presented on the cash basis of accounting. The cash basis of accounting, recognizes revenues when received rather than when earned and expenditures when paid rather than when the liability incurred (note that membership is billed as an optional fee). As a result of the use of cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Taxable Income

A Homeowners' Association can elect each year to be taxed under regulations pertaining to Homeowners' Associations under Internal Revenue Code Section 528 or under Internal Revenue Code Section 277. Under Homeowners' Association tax regulations, net nonexempt function income is taxed at a flat rate of 30%. Under Internal Revenue Code Section 277, the Association must allocate its income and expenses between membership and non-membership activities. By electing to carry any excess membership income over expenses to the following year's assessments, to replacement funds or to refund the excess, only its net non-membership income is taxed at a regular tax rate. The Association has elected to file annually under Code Section 528.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal income tax returns for 2018, 2019 and 2020 are also open to examination. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

Concentration of Credit Risk

Substantially all the Association's income is derived from property owners in Walker Lakeshores. The Association has the right to place a lien on the property of any owner who defaults in payment of fees and assessments.

**WALKER LAKESHORES LANDOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued:

Common Property

Common Property includes roads, lake and beach areas, recreational areas and signage. In accordance with the AICPA audit and accounting guide for Common Interest Realty Associations issued by the American Institute of Certified Public Accountants, such areas directly associated with the individual properties are not capitalized and improvements thereto are expensed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts. Accordingly, actual results could differ from those estimates.

NOTE 2. LINE OF CREDIT:

The Association has a line of credit available from Wayne Bank. The line bears interest at variable rates (5.00% at December 31, 2021) and matures in October 2022. Outstanding draws on the line totaled \$22,000 at December 31, 2021.

NOTE 3. CASH ACCOUNTS:

Cash, at December 31, 2021, consisted of:

Wayne Bank Checking	\$ 59,816
Wayne Bank Lake Reserve	59,642
Vanguard Lake Reserve	150,680
Wayne Bank Building Reserve	16,964
Wayne Bank Cap. Imp. Account	10,795
Wayne Bank Road Reserve	3,740
Petty Cash	<u>86</u>
	<u>\$ 301,723</u>

NOTE 4. LONG-TERM DEBT:

Loan payable, Wayne Bank in the original amount of \$142,721, due in monthly installments of \$2,534, including interest at an annual rate of 5.75%, secured by real estate and matures in October 2022. The loan was used to fund road repairs, dam repairs, and tennis court construction (the latter as a portion of the line of credit satisfied by the initial draw on the note). The monthly installment was reduced to \$1,005 in June 2020, and again in October 2020 to \$1,002 through September 2021. The balance at December 31, 2021 was \$4,898.

Five year maturities on long-term debt are as follows:

2022	<u>4,898</u>
Total	<u>\$ 4,898</u>

**WALKER LAKESHORES LANDOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

NOTE 5. FUTURE MAJOR REPAIRS AND REPLACEMENTS:

The Association is funding major repairs and replacements over the estimated useful lives of the common area components based upon a study to estimate their remaining useful lives and replacement costs. Actual expenditures for such items may vary from the estimated amounts and the variations may be material. If additional funds are needed, the Association has the right, subject to Board approval, to increase regular assessments, levy special assessments, borrow, or delay major repairs and replacements until funds are available.

NOTE 6. SETTLEMENT WITH HINKEL ESTATES PROPERTY OWNERS ASSOCIATION:

On April 8, 2016, the Association agreed to a settlement agreement regarding litigation brought against it by Hinkel Estates Property Owners Association. The settlement included a number of matters. The Association's constitution was amended to include one landowner in Hinkel Estates Property Owners Association to represent it on the Association's Board of Directors. Annual audits are to be conducted commencing with the year ended December 31, 2016. In addition, dues billed to Hinkel Estates Property Owners Association for years prior to 2016 were zeroed out. All other pending lawsuits for dues and assessments against Hinkel Estates Property Owners Association residents were dropped. For the years 2016 through 2020 all Hinkel Estates Property Owners Association members are entitled to lake rights at no charge. For years 2021 and thereafter, members who want to utilize lake rights will be entitled to do so upon paying the lake assessment for the year. Walker Lakeshores Landowners Association agree to reimburse the lake fund the sum of \$100,000. Liquidated damages were paid to Hinkel Estates Property Owners Association in the amount of \$45,000 through its insurance carrier.

NOTE 7. SUBSEQUENT EVENTS:

Subsequent events were evaluated through October 25, 2022 which is the date the financial statements were available to be issued.

**WALKER LAKESHORES LANDOWNERS ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS (COMPILED)
DECEMBER 31, 2021**

The Association estimated the remaining useful lives and replacement costs of the components of common property. A reserve study was conducted in December 2021 using Association Reserves.

The following information is based on the study and presents significant information about the components of common property.

<u>Component</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Costs</u>	<u>Fully Funded Balance</u>
Roof	1 to 30	\$ 18,500	\$ 17,883
Furnace office	2 to 25	\$ 5,000	\$ 4,600
Furnace clubhouse	7 to 25	\$ 5,000	\$ 3,600
AC office	0 to 12	\$ 5,000	\$ 5,000
AC clubhouse	0 to 12	\$ 5,000	\$ 5,000
Clubhouse	10 to 20	\$ 25,000	\$ 12,500
Buildings	4 to 25	\$ 5,000	\$ 4,200
Tennis Court	4 to 5	<u>\$ 5,000</u>	<u>\$ 1,000</u>
		<u>\$ 73,500</u>	<u>\$ 53,783</u>

At December 31, 2021, the Association had a total of \$231,026 in its reserve funds (excluding the Capital Improvement Fund).

See accountants' report