

Wilderness Rim Association

Audit Report Financial Statements & Supplementary Information June 30, 2017

Cagianut & Company
CERTIFIED PUBLIC ACCOUNTANT
www.hoacpa.com

Members - Community Associations Institute—Washington State
Washington Society of Certified Public Accountants
American Institute of Certified Public Accountants

Independent Auditors' Report

To the Board of Directors and Members
Wilderness Rim Association
North Bend, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Wilderness Rim Association, which comprise the Balance Sheet as of June 30, 2017, and the related Statement of Changes in Fund Balances, Statement of Revenues and Expenses and Statement of Cash Flows for the year then ended and the related notes to the financial statements.

Association's Responsibility for the Financial Statements

The Association 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 of 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 qualified audit opinion.

Basis for Qualified Opinion

Because of the inadequacy of the accounting records for the period ended June 30, 2017, we were unable to obtain sufficient appropriate audit evidence regarding the Receivables from Members, Allowance for Bad Debt, Clearing, Water Sales, and Bad Debt expense balances.

Qualified Opinion

In our opinion, except for the possible effects of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Wilderness Rim Association as of June 30, 2017, 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.

Other Matter - Required Supplementary Information

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future repairs and replacements are adequate to meet such future costs because that determination is outside the scope of our audit.

Accounting principles generally accepted in the United States of America [GAAP] require that the Supplementary Information on Future Major Repairs 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 and for placing the basic financial statements and related notes 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.

Cagianut & Company, CPA

Bellevue, Washington

November 16, 2017

Wilderness Rim Association

Balance Sheet

June 30, 2017

	OPERATING FUND	REPLACEMENT FUND	SECURITY & PLAYGROUND FUND	TOTAL
ASSETS				
Cash, including interest bearing deposits	\$ 154,455	\$ 108,694		\$ 263,149
Investments		611,783		611,783
Other Receivable	8,443			8,443
Assessments Receivable	19,062			19,062
Less: Allowance for Bad Debts	(2,934)			(2,934)
Prepaid Insurance	1,732			1,732
Prepaid Expenses	19			19
Fixed Assets	633,851			633,851
Less: Accumulated Depreciation	(534,099)			(534,099)
Clearing	17,008			17,008
Due Between Funds	(38,958)	7,476	\$ 31,482	
TOTAL ASSETS	\$ 258,579	\$ 727,953	\$ 31,482	\$ 1,018,015
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 23,249			\$ 23,249
Wages Payable	1,704			1,704
Payroll Taxes Payable	1,164			1,164
Income Taxes Payable	2,734			2,734
TOTAL LIABILITIES	28,851			28,851
 FUND BALANCES				
Operating	229,728			229,728
Replacement		\$ 727,953		727,953
Security & Playground			\$ 31,482	31,482
TOTAL FUND BALANCES	229,728	727,953	31,482	989,164
TOTAL LIABILITIES AND FUND BALANCES	\$ 258,579	\$ 727,953	\$ 31,482	\$ 1,018,015

See Notes to the Financial Statements

Wilderness Rim Association
Statement of Changes in Fund Balances
For the Year Ended June 30, 2017

	OPERATING FUND	REPLACEMENT FUND	SECURITY & PLAYGROUND FUND	TOTAL
Balance at the Beginning of the Year	\$ 220,677	\$ 678,097	\$ 23,660	\$ 922,434
Excess <Deficiency> of Revenues over Expenses	9,051	49,856	7,823	66,730
Balance at the End of the Year	<u>\$ 229,728</u>	<u>\$ 727,953</u>	<u>\$ 31,482</u>	<u>\$ 989,164</u>

See Notes to the Financial Statements

Wilderness Rim Association
Statement of Revenues and Expenses
For the Year Ended June 30, 2017

	OPERATING FUND	REPLACEMENT FUND	SECURITY & PLAYGROUND FUND	TOTAL
REVENUES				
Assessments	\$ 53,440			\$ 53,440
Water System Surcharges		\$ 7,476		7,476
Security Patrol Assessment & Late Fees			\$ 32,531	32,531
Water Sales, Fees, Late charges	263,544	33,642		297,186
Interest		8,738		8,738
Ground Lease	8,443			8,443
Member Transfer Fees	5,800			5,800
Miscellaneous	1,085			1,085
TOTAL REVENUES	332,312	49,856	32,531	414,700
EXPENSES				
Audit & Tax Preparation	3,375			3,375
Board, Annual Meeting and Events	1,888			1,888
Bookkeeping Services	8,997			8,997
Depreciation	6,280			6,280
Electricity	4,711			4,711
Federal Taxes	4,944			4,944
Insurance	12,251			12,251
Legal	18,665			18,665
Miscellaneous	2,264			2,264
Office Supplies	2,084			2,084
Park Maintenance	4,205			4,205
Park Supplies, Repairs, Power	3,780			3,780
Payroll - Gross Wages	18,418			18,418
Payroll - Taxes	2,297			2,297
Postage & Copies	1,323			1,323
Property Tax	4,760			4,760
Telephone and Internet	2,385			2,385
Water Admin/System Op	1,477			1,477
Water Cost	150,715			150,715
Water Direct	32,560			32,560
Water Excise Tax	13,423			13,423
Water Licenses Permits	1,221			1,221
Water Repairs/Leak Detection	21,239			21,239
Security & Playground Fund Expenses				
Playground			2,557	2,557
Security Patrol			22,152	22,152
TOTAL EXPENSES	323,261		24,708	347,970
EXCESS <DEFICIENCY> OF REVENUES OVER EXPENSES	\$ 9,051	\$ 49,856	\$ 7,823	\$ 66,730

See Notes to the Financial Statements

Wilderness Rim Association
Statement of Cash Flows
For the Year Ended June 30, 2017

	OPERATING FUND	REPLACEMENT FUND	SECURITY & PLAYGROUND FUND	TOTAL
<i>Cash Flows from Operating Activities:</i>				
Cash from Assessments	\$ 68,183			\$ 68,183
Cash from Special Assessments and Surcharges		\$ 41,118	\$ 32,531	73,649
Interest Received		8,738		8,738
Miscellaneous Income	278,872			278,872
Income Taxes Paid	(2,790)			(2,790)
Cash Paid for Services/Products	(370,206)		(26,667)	(396,873)
Net Increase <Decrease> in Cash from Operating Activities	(25,941)	49,856	5,864	29,779
<i>Cash Flows from Investing Activities:</i>				
Purchase of Investments		(110,000)		(110,000)
<i>Cash Flows from Financing Activities:</i>				
Change in Due Between Funds	13,340	(7,476)	(5,864)	
Net Increase <Decrease> in Cash	(12,602)	(67,620)	0	(80,221)
Cash, including interest bearing deposits, at the Beginning of Year	167,057	176,314		343,371
Cash, including interest bearing deposits, at the End of Year	<u>\$ 154,455</u>	<u>\$ 108,694</u>	<u>\$ 0</u>	<u>\$ 263,149</u>

Reconciliation of Excess <Deficiency> of Revenues over Expenses to Net Cash Received by Operations:

Excess <Deficiency> of				
Revenues over Expenses	\$ 9,051	\$ 49,856	\$ 7,823	\$ 66,730
Increased Other Receivable	(8,443)			(8,443)
Decreased Assessments Receivable	14,743			14,743
Decreased Prepaid Insurance	765			765
Decreased Prepaid Expenses	627			627
Increased Fixed Assets	(40,985)			(40,985)
Decreased Less: Accumulated Depreciation	6,280			6,280
Increased Clearing	(17,008)			(17,008)
Increased Accounts Payable	5,283		(1,959)	3,324
Increased Taxes Payable	2,444			2,444
Decreased Payroll Taxes Payable	(403)			(403)
Increased Wages Payable	1,704			1,704
Net Increase<Decrease>in Operating Cash	<u>\$ (25,941)</u>	<u>\$ 49,856</u>	<u>\$ 5,864</u>	<u>\$ 29,779</u>

See Notes to the Financial Statements

Wilderness Rim Association

Notes to the Financial Statements

June 30, 2017

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Wilderness Rim Maintenance Corporation was incorporated in 1967 and merged into Wilderness Rim Association on June 10, 1993 in the state of Washington. Operating as a non-profit homeowner's association, the business is responsible for the operation and maintenance of the common properties and water system. This is a 670-unit planned residential development located east of North Bend, Washington, with two units owned by the Association.

Accounting Method

The Association prepares its statements on the accrual basis of accounting whereby income and expenses are recognized when earned and incurred. Fund accounting is employed to properly account for the monies. The Operating Fund is used to pay for all utility, insurance, general maintenance, landscaping, and administrative obligations of the Association. The Replacement Fund has been established to meet the replacement and major repair obligations of the Association with regard to the common area components. The Security and Playground Fund has been established to account for the income and expenses as defined further in Note 5.

Capitalization Policy

Replacements and improvements to the real property are not capitalized on the books of the Association as the Board does not have the right to sell the common areas and keep the proceeds. Property and equipment acquired by the Association are recorded at cost. The property is depreciated over its estimated useful lives using the straight line method of depreciation.

Assessments Receivable

Association members are subject to 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 Declaration provides for various collection remedies for delinquent assessments including the filing of liens, foreclosing on the unit owner, and obtaining judgment on the assets of the unit owner. The Association uses the allowance method to account for uncollectible assessments receivable.

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.

Cash, including Interest Bearing Deposits

For purposes of the statement of cash flows, Cash, including Interest Bearing Deposits, includes cash on hand, funds on deposit with financial institutions, and investments with original maturities of three months or less.

Fair Value Measurements

The three levels of the fair value hierarchy under ASC 820, Fair Value Measurements and Disclosures, are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Investments

Investments include certificates of deposit with original maturities over 90 days. These are level one type investments.

Date of 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 that the financial statements were issued or available to be issued.

Wilderness Rim Association

Notes to the Financial Statement

June 30, 2017

NOTE 2 - REPLACEMENT FUNDING PROGRAM

The Association is currently funding for the future major repair and replacement of Association common areas as disclosed in Note 1. Accumulated funds are held in separate accounts and are generally not available for operating purposes. The funding is based upon a professional reserve study approved by the Board of Directors.

There were significant changes between the Required Supplementary Information presented in the prior audit and in the current audit. The Association had an updated reserve study prepared and it was determined that reserve component asset remaining lives and replacement costs required revision. The most significant changes were: 1) increasing the cost of replacing the wood fence, the AC and PVC water main/laterals, and the two-inch water service pipe, 2) decreasing the cost of replacing the windows/sliders, and 3) reducing the remaining useful life of painting/caulking the exterior surface. These changes have been approved by the Board of Directors.

Funds are being accumulated in the Replacement Fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and variations may be material. Therefore, the amounts accumulated in the Replacement Fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to certain legal limitations, to increase assessments, pass special assessments, or delay replacement if these funds are found to be inadequate for all future costs.

The Rules and Regulations of the Wilderness Rim Association Water System state that the Water Surcharge will be used only for water system expenses. For 2016-2017, water surcharges totaled \$41,118 and are included in the Replacement Fund.

NOTE 3 - INCOME TAXES

Associations may be taxed either as homeowners associations or as regular corporations. For the current year the Association elected to file as a homeowners association using form 1120-H under Internal Revenue Code Section 528. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance and care of Association property. Net nonexempt function income which includes interest, user fees and revenues from non-members is taxed at 30%. Certain expenses were allocated to offset a portion of the taxable income.

The Association's federal tax return is subject to audit by the Internal Revenue Service. The tax returns for the current and prior two fiscal years remain open for examination by the IRS. In evaluating the Association's tax positions and accruals, the Association believes that its estimates are appropriate based on the current facts and circumstances.

NOTE 4 - OWNERS' ASSESSMENTS

Annual assessments to owners were \$80.

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

NOTE 5 - UNINSURED CASH BALANCES

The Association's cash deposits are with various financial institutions. All accounts in one financial institution are combined and the maximum FDIC insurance amount per bank is \$250,000. At the end of the year, bank balances exceeded the FDIC limitation by over \$4,500.

NOTE 6 - SPECIAL ASSESSMENTS - SECURITY PATROL & PLAYGROUND SAFETY

There was an annual special assessment of \$48 per unit for security patrols. Additionally, late fee income of \$435 was allocated to the Security Fund. Through a private contract, the Association hired off-duty King County Sheriff's Deputies to make random patrols in Wilderness Rim. The unused portion of the security special assessment is carried over to the subsequent year.

In the prior year, there was a special assessment of \$15 per unit for improvements to the community's playgrounds. A plan for the playground work was approved February 15, 2017, and work commenced in the summer of 2017.

The Security and Playground Fund was established to account for this activity.

Wilderness Rim Association

Notes to the Financial Statement

June 30, 2017

NOTE 7 - JOINT WATER STORAGE FACILITIES AGREEMENT

On January 31, 1986, the Association and Sallal Water Association, Inc. entered into an agreement for use of joint water storage facilities. The Association has the right to the use of 160,000 gallons of Sallal's water storage capacity for a period of 99 years, with the option to renew for an additional 99 years at a cost of ten dollars (\$10).

Annually, the Sallal Water Association reimburses Wilderness Rim Association for four houses in Starbow that are not part of Wilderness Rim but are served water through their system.

The Association purchases the water at wholesale rates agreed to between the parties. The 2015 Water System Operations Contract for billing services in which Sallal Water has been the vendor since 2008 was approved January 21, 2015. The Water System Operations contract for 2016 was awarded to Satellite Management effective February 11, 2016. These contracts both remain in effect.

NOTE 8 - GROUND LEASE

Effective June 1, 2010, the Association renewed a ground lease with CenturyTel (now CenturyLink). The lease is for a period of five years and will automatically renew for two successive terms of five years each upon the same terms and conditions. The initial annual rent was \$6,000 and each year rent increases 5%. Commencing June 1, 2015, a second five-year term was renewed through June 1, 2019. Annual rent for this fiscal year ended June 30, 2017 was \$8,443. Annual rent is to be paid in advance on the first day of June without any prior demand.

NOTE 9 - RELATED PARTY TRANSACTIONS

The Board of Trustees authorized hiring Association members, Board members, and/or spouses of Board members on an as-needed basis for grounds maintenance tasks. In the year ended June 30, 2017, a total of \$9,344 was paid to these individuals.

Also, the accounting controller of Sallal Water Association who provides water billing services to the Association (See Note 7) is a spouse of a Board member.

NOTE 10 - FIXED ASSETS

Fixed assets are comprised of the following:

Land	\$	15,627
Water System & Improvements		426,367
Chalet Building & Repairs		123,061
Playground, Park & Picnic Equipment		53,184
Office & Computer Equipment		15,614
	\$	<u>633,853</u>

Wilderness Rim Association
June 30, 2017
Supplementary Information on Future Major Repairs
and Replacements
(Unaudited)

An update "with-site-visit" reserve study was prepared on September 7, 2017 by Association Reserves for the period July 1, 2017 to June 30, 2018 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on current estimated replacement costs. Funding requirements consider an annual inflation rate of 3.0% and interest of 1.0%, net of taxes, on amounts funded for future major repairs and replacements. The following table is based on the study and presents significant information about the components of common property.

Component	Estimated Remaining Useful Life in Years	Estimated Current Replacement Costs	Fund Balance at Year End
Site/Grounds			
Concrete - Repair/Replace	1	\$ 7,500	
Wood Fence - Replace	1	15,000	
Trees - Trim/Remove	0	8,500	
Entry Sign - Repair/Replace	7	3,000	
Kubota Tractor - Replace	4	15,300	
John Deere Tractor - Replace	5	2,000	
Chipper/Shredder - Replace	5	2,000	
Septic System - Repair/Replace	5	8,000	
Recreation			
Basketball Court/Hoop - Repair/Maintain	2	5,000	
Play Equipment - Replace	7	30,000	
Picnic Assets - Repair/Replace	6	10,000	
Park Restroom Bldg - Repair/Replace	2	8,200	
Picnic Shelters - Repair/Replace	2	10,000	
Footbridge - Repair/Replace	7	2,000	
Chalet/Office Exteriors & Interior			
Steep Slope Roof - Replace	49	22,500	
Low Slope Roof - Replace	24	15,000	
Gutters/Downspouts - Repair/Replace	24	2,100	
Siding: Wood - Repair/Replace	0	20,000	
Exterior Surfaces - Paint/Caulk	0	6,050	
Windows, Sliders - Repair/Replace	2	11,250	
Wood Deck - Repair/Replace	1	10,000	
Exterior Lights - Replace	5	1,900	
Carpet - Replace	2	6,600	
Vinyl Flooring - Replace	2	2,750	
Interior Wall/Ceilings - Clean/Paint	2	3,440	
Bathrooms - Refurbish	2	7,500	
Kitchen - Refurbish	2	5,750	
Water System			
Water Leakage - Study	2	6,250	
Water Sampling Stations - Replace	33	10,500	
Blow-Off Assemblies - Replace	30	36,000	
AC Water Mains & Laterals - Replace	11	2,460,000	
PVC Water Mains & Laterals - Replace	57	961,000	
Water Service Pipe (2' Dia) - Replace	26	1,065,000	
Service Connection Meters - Replace	26	425,000	
Valves - Repair/Replace	26	59,000	
Fire Hydrants - Replace	36	186,000	
TOTAL			\$ <u>727,953</u>

Percent Funded as of July 1, 2017 - 41.6%