

Independent Auditors' Report

To the Board of Trustees 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, 2016, 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, 2016, we were unable to obtain sufficient appropriate audit evidence regarding the Receivables from Members, Allowance for Bad Debt, 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, 2016, 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.

Bellevue, Washington

June 10, 2017

Wilderness Rim Association

Balance Sheet
June 30, 2016

	OPERATING FUND	REPLACEMENT FUND	SECURITY & PLAYGROUND FUNDS	TOTAL
ASSETS				
Cash, including interest bearing deposits	\$ 167,057	\$ 176,314		\$ 343,371
Investments		501,783		501,783
Receivables from Members	33,805			33,805
Less: Allowance for Bad Debts	(2,934)			(2,934)
Prepaid Insurance	2,497			2,497
Prepaid Expenses	646			646
Fixed Assets	592,866			592,866
Less: Accumulated Depreciation	(527,819)			(527,819)
Due Between Funds	(25,619)		\$ 25,619	
TOTAL ASSETS	\$ 240,499	\$ 678,097	\$ 25,619	\$ 944,215
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 17,966		\$ 1,959	\$ 19,924
Payroll Taxes Payable	1,567			1,567
Income Taxes Payable	290			290
TOTAL LIABILITIES	19,822		1,959	21,781
FUND BALANCES				
Operating	220,677			220,677
Replacement		\$ 678,097		678,097
Security & Playground			23,660	23,660
TOTAL FUND BALANCES	220,677	678,097	23,660	922,434
TOTAL LIABILITIES AND FUND BALANCES	\$ 240,499	\$ 678,097	\$ 25,619	\$ 944,215

See Notes to the Financial Statements

Wilderness Rim Association
 Statement of Changes in Fund Balances
 For the Year Ended June 30, 2016

	OPERATING FUND	REPLACEMENT FUND	SECURITY & PLAYGROUND FUNDS	TOTAL
Balance at the Beginning of the Year	\$ 202,349	\$ 629,077	\$ 5,560	\$ 836,985
Excess <Deficiency> of Revenues over Expenses	18,328	49,021	18,100	85,449
Balance at the End of the Year	<u>\$ 220,677</u>	<u>\$ 678,097</u>	<u>\$ 23,660</u>	<u>\$ 922,434</u>

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See Notes to the Financial Statements

Wilderness Rim Association
Statement of Revenues and Expenses
For the Year Ended June 30, 2016

	OPERATING FUND	REPLACEMENT FUND	SECURITY & PLAYGROUND FUNDS	TOTAL
REVENUES				
Assessments	\$ 19,798	\$ 33,642		\$ 53,440
Security Patrol Assessment & Late Fees			\$ 29,345	29,345
Playground Safety Assessment			10,020	10,020
Water Sales, Surcharges, Fees	290,761	8,253		299,014
Chalet and Park Reservations	400			400
Late, Lien and NSF Fees	2,695			2,695
Interest		7,125		7,125
Ground Lease	8,041			8,041
Member Transfer Fees	4,700			4,700
TOTAL REVENUES	326,394	49,021	39,365	414,780
EXPENSES				
Audit & Tax Preparation	2,500			2,500
Bad Debts	1,367			1,367
Board, Annual Meeting and Events	3,397			3,397
Communications Committee	819			819
Depreciation	4,421			4,421
Electricity	4,044			4,044
Federal Taxes	3,767			3,767
Insurance	11,842			11,842
Legal	19,429			19,429
Miscellaneous	1,063			1,063
Office Supplies	1,582			1,582
Park Dumpster	579			579
Park Maintenance	7,314			7,314
Payroll - Gross Wages	40,723			40,723
Payroll - Taxes	3,676			3,676
Postage & Copies	1,858			1,858
Property Tax	4,328			4,328
Repairs & Maintenance	4,808			4,808
Staffing - Office	608			608
Telephone and Internet	2,907			2,907
Water Cost	135,778			135,778
Water Direct	32,151			32,151
Water Excise Tax	13,135			13,135
Water Licenses Permits	1,231			1,231
Water Repairs	4,740			4,740
Security & Playground Funds				
Security Patrols			21,265	21,265
TOTAL EXPENSES	308,066	0	21,265	329,332
EXCESS <DEFICIENCY> OF REVENUES OVER EXPENSES	\$ 18,328	\$ 49,021	\$ 18,100	\$ 85,449

See Notes to the Financial Statements

Wilderness Rim Association
Statement of Cash Flows
For the Year Ended June 30, 2016

	OPERATING FUND	REPLACEMENT FUND	SECURITY & PLAYGROUND FUNDS	TOTAL
<i>Cash Flows from Operating Activities:</i>				
Cash from Assessments	\$ 21,684	\$ 33,642		\$ 55,326
Cash from Special Assessments			\$ 39,365	39,365
Interest Received		7,125		7,125
Miscellaneous Income	306,596	8,253		314,849
Income Taxes Paid	(2,000)			(2,000)
Cash Paid for Services/Products	(302,079)		(19,306)	(321,385)
Net Increase <Decrease> in Cash from Operating Activities	24,201	49,021	20,059	93,280
<i>Cash Flows from Investing Activities:</i>				
Purchase of Investments		(201,783)		(201,783)
<i>Cash Flows from Financing Activities:</i>				
Change in Due Between Funds	12,725	7,334	(20,059)	
Net Increase <Decrease> in Cash	36,925	(145,428)	0	(108,503)
Cash, including interest bearing deposits, at the Beginning of Year	130,131	321,743	0	451,874
Cash, including interest bearing deposits, at the End of Year	<u>\$ 167,057</u>	<u>\$ 176,314</u>	<u>\$ 0</u>	<u>\$ 343,371</u>

Reconciliation of Excess <Deficiency> of Revenues over Expenses to Net Cash Received by Operations:				
Excess <Deficiency> of				
Revenues over Expenses	\$ 18,328	\$ 49,021	\$ 18,100	\$ 85,449
Decreased Assessments Receivable	6,932			6,932
Decreased Prepaid Insurance	3,020			3,020
Decreased Prepaid Taxes	1,477			1,477
Increased Prepaid Expenses	(646)			(646)
Adjusted for Depreciation	4,421			4,421
Change in Accounts Payable	(4,738)		1,959	(2,779)
Decreased Prepaid Assessments	(5,046)			(5,046)
Increased Taxes Payable	290			290
Increased Payroll Taxes Payable	163			163
Net Increase<Decrease> in Operating Cash	<u>\$ 24,201</u>	<u>\$ 49,021</u>	<u>\$ 20,059</u>	<u>\$ 93,280</u>

See Notes to the Financial Statements

Wilderness Rim Association
Notes to the Financial Statements
June 30, 2016

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 water system components and other common areas. 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 some of the real property are capitalized on the books of the Association. 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.

Receivables from Members

Association members are subject to assessments for private water usage to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements and to pay for the water operations. Receivables from Members at the balance sheet date represent fees for all payments 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, 2016

NOTE 2 - REPLACEMENT FUNDING PROGRAM

The Association is currently funding replacement reserve accounts for the future water system replacement and 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 Trustees.

Beginning July 2014, the unit owners who are connected to the water system are paying a \$2 bi-monthly fee for the small water system management plan which is done every five years. These monies are held in the Replacement Fund. There was \$7,476 billed in the current fiscal year for this water surcharge. These replacement costs are not included in the most recent reserve study.

The most recent reserve study recommends monthly allocations to the Replacement Fund in the fiscal year ending June 30, 2017 of \$18,670. The budgeted monthly reserve transfers for the 2016-2017 fiscal year are \$3,247.

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. Two of the most significant changes were: 1) adding roof replacement as a component, and 2) adding siding repair as a component. These changes have been approved by the Board of Trustees.

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 2015-16, water surcharges totaled \$33,642.

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 Trustees, 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 - SPECIAL ASSESSMENTS - SECURITY PATROL & PLAYGROUND SAFETY

There was an annual special assessment of \$40 per unit for security patrols. Additionally, late fee income of \$2,625 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.

There was a special assessment of \$15 per unit for improvements to the community's playgrounds. As of June 30, 2016, work on the playground improvements had not started. A plan for the playground work was approved February 15, 2017.

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

Wilderness Rim Association
Notes to the Financial Statement
June 30, 2016

NOTE 6 - 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 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. This contract remains in effect.

NOTE 7 - 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%. Annual rent is to be paid in advance on the first day of June without any prior demand.

NOTE 8 - 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 administrative and grounds maintenance tasks. In the year ended June 30, 2016, a total of \$42,248 was paid to these individuals.

NOTE 9 - FIXED ASSETS

Fixed assets are comprised of the following:

Land	\$	15,627
Water System & Improvements		426,367
Chalet Building & Repairs		82,076
Playground, Park & Picnic Equipment		53,183
Office & Computer Equipment		15,613
	\$	<u>592,866</u>

Wilderness Rim Association
 June 30, 2016
 Supplementary Information on Future Major Repairs
 and Replacements
 (Unaudited)

A "Do-It-Yourself" Reserve Study Kit was prepared on August 25, 2016 by Association Reserves, Inc. for the period July 1, 2016 to June 30, 2017 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 3.00% and interest of 0.75%, 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
Roof - Replace	13	\$ 30,000	
Siding Repair	0	4,000	
Concrete - Repair/Replace	1	10,000	
Wood Fence - Replace	2	5,000	
Kubota Tractor - Replace	5	18,000	
Sport Court. Misc. - Seal/Repair	2	5,500	
Play Equipment - Replace	8	35,000	
Picnic Tables - Repair/Replace	8	10,000	
Park Restrooms - Repair/Replace	7	7,500	
Picnic Shelter - Repair/Replace	5	15,000	
Roof: Wood Shake - Repair/Replace	0	36,000	
Roof: Low Slope - Replace	0	20,000	
Gutters/Downspouts - Repair/Replace	0	1,800	
Siding: Wood - Repair/Replace	3	18,000	
Exterior Surfaces - Paint/Caulk	8	5,500	
Windows, Sliders - Repair/Replace	3	20,000	
Wood Deck - Repair/Replace	0	10,200	
Exterior Lights - Replace	5	2,000	
Carpet - Replace	2	7,800	
Vinyl Flooring - Replace	2	2,500	
Interior Wall - Ceilings - Clean/Paint	8	3,150	
Bathroom - Refurbish	8	10,000	
Kitchen - Refurbish	8	7,000	
Appliances - Replace	3	1,500	
Septic Systems - Repair/Replace	0	80,000	
Water Meter Stations - Replace	16	12,000	
Water Sampling Stations - Replace	34	10,500	
Blow-Off Assembly - Replace	20	61,500	
AC Water Mains & Laterals - Replace	12	2,250,000	
PVC Water Mains & Laterals - Replace	58	880,000	
Water Service Pipe (2" Dia) - Replace	27	975,000	
Valves - Repair/Replace	27	34,000	
Fire Hydrants - Replace	37	170,000	
TOTAL			\$ 678,097

Percent Funded as of July 1, 2016 - 21.7%