

**Langenhorst & Self-Merritt CPAs, P.S.**  
**Business and Financial Consultants**

Board of Directors and Managing Agent, Bill Butler  
Wandermere Estates Homeowners Association

In planning and performing our audit of the financial statements of Wandermere Estates Homeowners Association as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered Wandermere Estates Homeowners Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. Our audit was also not designed to identify deficiencies in internal control that might be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We communicated the significant deficiencies identified during our audit in a separate communication dated November 29, 2016. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management including the managing agent, the Board of Directors of Wandermere Estates Homeowners Association, and others within the Association, and is not intended to be, and should not be, used by anyone other than those specified parties.

Langenhorst & Self-Merritt CPAs, P.S.  
Spokane, WA

*H.S. Langenhorst C.P.A.*

Hubert S. Langenhorst, CPA  
November 29, 2016



**Langenhorst & Self-Merritt CPAs, P.S.**  
Business and Financial Consultants

November 29, 2016

Board of Directors and Managing Agent, Bill Butler  
Wandermere Estates Homeowners Association

In planning and performing our audit of the financial statements of Wandermere Estates Homeowners Association as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered Wandermere Estates Homeowners Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in Wandermere Estates Homeowners Association's internal control to be a significant deficiency:

Although the management company has several controls in place to help mitigate fraudulent acts, due to access to all software functions and passwords by both the Managing Agent and Controller of the management company, the opportunity exists for management override of controls that may result in misstatements of financial statements that go undetected by the Board of Directors of the Association.

During our current and past audits, we also became aware of the following deficiency in internal control, other than a significant deficiency or material weakness, that is an opportunity for strengthening internal controls and operating efficiency:

It's recommended that the Association create and utilize a form to assist with approval and record of transfers of funds to the reserve account from checking and/or savings accounts. The completed forms should be retained by the Association for purposes of record keeping and should be specific as to description and amounts earmarked for major repairs and replacements. As a best practice, all approved transfers of funds should be noted in the minutes of the Association.

We will review the status of this comment during our next audit engagement. We have already discussed this suggestion with you and we will be pleased to discuss it in further detail at your convenience, or to assist you in implementing the recommendation.

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

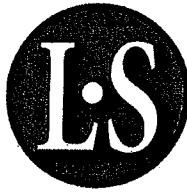
Sincerely,

*Langenhorst & Self-Merritt CPAs, P.S.*

*H.S. Langenhorst C.P.A.*

Hubert S. Langenhorst, CPA

0517.010



**Langenhorst & Self-Merritt CPAs, P.S.**  
Business and Financial Consultants

November 29, 2016

Board of Directors and Managing Agent, Bill Butler  
Wandermere Estates Homeowners Association

We have audited the financial statements of Wandermere Estates Homeowners Association for the year ended December 31, 2015, and have issued our report thereon dated November 29, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 2, 2016. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings:**

***Qualitative Aspects of Accounting Principles***

You are responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Wandermere Estates Homeowners Association are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements and are based on your knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

The estimate of the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from a reserve study professional who inspected the property during 2012 and provided a reserve study report to the Association based on estimates obtained from licensed contractors.

The financial statement disclosures are neutral, consistent, and clear.

November 29, 2016

Page 2

***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Uncorrected Misstatements***

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We did not note any such misstatements.

***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated November 29, 2016.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

***Required Supplementary Information***

With respect to the supplementary information accompanying the financial statements, accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property 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 did not audit, review, or compile

Board of Directors and Managing Agent, Bill Butler  
Wandermere Estates Homeowners Association  
November 29, 2016  
Page 3

the required supplementary information, and, accordingly, we do not assume any responsibility for it.

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

Sincerely,  
*Langenhorst & Self-Merritt CPAs, P.S.*

*H.S. Langenhorst C.P.A.*

Hubert S. Langenhorst, CPA

XXXXeng.111.doc

Jan 2014

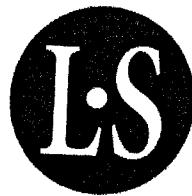
**Wandermere Estates  
Homeowners Association**

---

**Financial Statements  
Year Ended December 31, 2015**

## TABLE OF CONTENTS

<b>REPORT OF CERTIFIED PUBLIC ACCOUNTANTS ON THE FINANCIAL STATEMENTS.....</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
Balance Sheet – Cash Basis .....	3
Statement of Revenues, Expenses, and Changes in Fund Balances – Cash Basis .....	4
Notes to Financial Statements.....	5-7
<b>INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION .....</b>	<b>8</b>
<b>SUPPLEMENTARY INFORMATION</b>	
Future Major Repairs and Replacements (Unaudited).....	9



**Langenhorst & Self-Merritt CPAs, P.S.**  
Business and Financial Consultants

To the Board of Directors  
Wandermere Estates Homeowners Association  
Spokane, Washington

**Independent Auditor's Report**

We have audited the accompanying financial statements of Wandermere Estates Homeowners Association, which comprise the balance sheet – cash basis as of December 31, 2015, and the related statement of revenues, expenses, and changes in fund balances – cash basis for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

**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 from 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 audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wandermere Estates Homeowners Association as of December 31, 2015, and the results of its operations for the year then ended, in accordance with the basis of accounting as described in Note 1.

**Report on Summarized Comparative Information**

We have previously audited Wandermere Estates Homeowners Association's 2014 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated February 4, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived, in accordance with the basis of accounting as described in Note 1.

**Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

*Dangenhorst & Self-Merritt CPAs, P.S.*

Spokane, WA

November 29, 2016

# WANDERMERE ESTATES HOMEOWNERS ASSOCIATION

## Balance Sheet – Cash Basis

December 31, 2015 (with summarized financial information as of December 31, 2014)

	2015			2014	
	Operating Fund	Savings Fund	Reserve Fund	Total	Total
<b>ASSETS</b>					
Cash and cash equivalents (Notes 3 and 4)					
	\$ 5,549	\$ 47,200	\$ 33,453	\$ 86,202	\$ 53,860
<b>FUND BALANCES</b>					
Fund Balances (Note 3)	\$ 5,549	\$ 47,200	\$ 33,453	\$ 86,202	\$ 53,860

# WANDERMERE ESTATES HOMEOWNERS ASSOCIATION

## Statement of Revenues, Expenses, and Changes in Fund Balances – Cash Basis

Year Ended December 31, 2015 (with summarized financial information for the year ended December 31, 2014)

	2015			2014	
	Operating Fund	Savings Fund	Reserve Fund	Total	Total
<b>REVENUES</b>					
Members' assessments					
Operating dues, gross	\$ 153,927	\$ -	\$ -	\$ 153,927	\$ 149,201
Late fees and interest	333	64	7	404	1,317
Other	15,235	-	-	15,235	18,587
<b>TOTAL REVENUES</b>	<b>169,495</b>	<b>64</b>	<b>7</b>	<b>169,566</b>	<b>169,105</b>
<b>OPERATING EXPENSES</b>					
Bank service charges	25	-	-	25	9
Insurance	2,668	-	-	2,668	2,528
Landscaping	52,391	-	-	52,391	45,470
Maintenance	14,038	-	-	14,038	3,084
Marketing	681	-	-	681	438
Office expense	783	-	-	783	1,771
Other administrative expenses	24,591	-	-	24,591	35,105
Payroll	3,423	-	-	3,423	2,220
Payroll taxes	404	-	-	404	156
Real estate taxes and licenses	405	-	-	405	343
Streets	14,430	-	-	14,430	11,370
Utilities	18,435	-	-	18,435	20,988
<b>TOTAL OPERATING EXPENSES</b>	<b>132,274</b>	<b>-</b>	<b>-</b>	<b>132,274</b>	<b>123,482</b>
<b>MAJOR REPAIRS AND REPLACEMENTS</b>					
	<b>4,950</b>	<b>-</b>	<b>-</b>	<b>4,950</b>	<b>54,399</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>					
	32,271	64	7	32,342	(8,776)
<b>BEGINNING FUND BALANCES</b>					
	578	47,136	6,146	53,860	62,636
Net transfer between funds	(27,300)	-	27,300	-	-
<b>ENDING FUND BALANCES</b>	<b>\$ 5,549</b>	<b>\$ 47,200</b>	<b>\$ 33,453</b>	<b>\$ 86,202</b>	<b>\$ 53,860</b>

The accompanying notes are an integral part of these statements.

Page \*4\*

# WANDERMERE ESTATES HOMEOWNERS ASSOCIATION

## Notes to Financial Statements

Year Ended December 31, 2015 (with summarized financial information for the year ended December 31, 2014)

---

### NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

#### Organization's activities:

Wandermere Estates Homeowners Association (the Association) was incorporated as a homeowners' association corporation on January 5, 2004, in the state of Washington. The Association is responsible for the repair, care, maintenance, management, and operation of the real property comprising the common property within the development. The development consists of 138 residential units located on approximately 19 acres in Spokane, Washington.

#### Basis of Accounting:

The accompanying financial statements have been prepared on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under that basis, the only asset recognized is cash, and no liabilities are recognized. All transactions are recognized as either cash receipts or disbursements, and noncash transactions are not recognized. The cash basis differs from generally accepted accounting principles primarily because (a) the effects of outstanding dues and obligations for assessments unpaid at the date of the financial statements are not included in the balance sheet and (b) accounts payable are not calculated or recorded in the balance sheet.

#### 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 financial resources available for the general operations of the Association.
- Savings Fund – This fund is used to accumulate excess financial resources from the Operating Fund.
- Reserve Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements.

#### Member assessments:

Association members are subject to semi-annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. Any excess assessments at year-end are retained by the Association for use in the succeeding year.

# WANDERMERE ESTATES HOMEOWNERS ASSOCIATION

## Notes to Financial Statements

Year Ended December 31, 2015 (with summarized financial information for the year ended December 31, 2014)

---

### **NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Cash and cash equivalents:**

Cash and cash equivalents include all unrestricted cash accounts and short-term liquid investments having an original maturity of three months or less.

#### **Use of estimates:**

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

#### **Subsequent events:**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through the date of the accountant's report on the financial statements, which is also the issuance date of the financial statements.

#### **Prior year financial information:**

The financial statements include certain prior-year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with the cash basis of accounting. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

### **NOTE 2.**

#### **INCOME TAXES**

Homeowners associations may be taxed either as homeowners associations or as regular corporations. For the year ended December 31, 2015, the Association was taxed as a regular corporation and filed Form 1120.

Pursuant to FASB ASC 740-10-50-15, as of November 29, 2016, the tax years that remain subject to examination by the IRS include the tax years ended December 31, 2015, 2014 and 2013.

# WANDERMERE ESTATES HOMEOWNERS ASSOCIATION

## Notes to Financial Statements Year Ended December 31, 2015 (with summarized financial information for the year ended December 31, 2014)

### NOTE 3.

#### **FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$33,453 and \$6,146 at December 31, 2015 and 2014, respectively, are held in a separate account and are generally not available for operating purposes.

In prior periods and for the year ended December 31, 2015, the Association funded the reserve fund for major repair and replacement expenditures from excess operating fund assessments. The Association levied no additional special assessments for the year ended December 31, 2015.

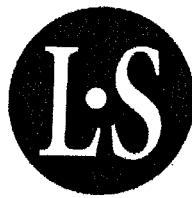
In accordance with state of Washington RCW 64.38.065, the Association's board of directors initiated a reserve study in May 2012 to estimate the remaining useful lives and the replacement costs of the components of the development's common property. The study was conducted by a reserve study professional that inspected the property. Reserve studies are required no later than every three years. No additional reserve studies have been conducted since May 2012. However, the Board of Directors did order a reserve study during 2016 that is expected to be conducted in 2017.

The Association plans to fund such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering that there were previously insufficient amounts 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 member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

### NOTE 4.

#### **CONCENTRATION OF CREDIT RISK**

The Association's cash and cash equivalents consist principally of money funds invested with one financial institution. Generally, cash and cash equivalents are available on demand and are subject to minimal market risk. Although possible, the Association does not expect that the amounts on deposit will exceed the insured limit of \$250,000 established by the United States Federal Deposit Insurance Corporation, which may potentially subject the Association to credit risk.



**Langenhorst & Self-Merritt CPAs, P.S.**  
Business and Financial Consultants

To the Board of Directors  
Wandermere Estates Homeowners Association  
Spokane, Washington

Independent Auditor's Report on Supplementary Information

We have audited the financial statements of Wandermere Estates Homeowners Association as of and for the year ended December 31, 2015, and our report thereon dated November 29, 2016, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole.

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 9 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, 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 not audited, reviewed, or compiled the required supplementary information, and, accordingly, we do not assume any responsibility for it.

*Langenhorst & Self-Merritt CPAs, P.S.*

Spokane, WA

# WANDERMERE ESTATES HOMEOWNERS ASSOCIATION

## Future Major Repairs and Replacements (Unaudited) Year Ended December 31, 2015

---

The Association's board of directors conducted a study in May 2012 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from licensed contractors who inspected the 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 is based on the study and presents significant information about the components of common property.

Components	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Cost
Overlay Lakeview, lower Wand. Est. Lane	19	\$ 131,224
Overlay Copper Canyon, Alpine, Mid. Wand. Est.	24	222,700
Overlay Upper Lanes	29	244,480
Replace deteriorated sidewalk sections	14	1,328
Replace Lakeview Lane Pathway Bridge	16	8,000
Replace gate operators and controls	6	11,276
Replace vinyl fences	21	18,752
Seal pathways	7	2,629
Seal Lakeview, lower Wand. Est. Lane	1	15,747
Seal Copper Canyon, Alpine, mid Wand. Est. Lane	2	26,724
Seal Upper Lanes	3	29,338
		<hr/>
		\$ 712,198