



November 30, 2017

To the Board of Directors and Managing Agent, Bill Butler  
Wandermere Estates Homeowners Association  
c/o WEB Properties Inc.  
P.O. Box 21469  
Spokane, WA 99201

We have audited the financial statements of Wandermere Estates Homeowners Association as of and for the year ended December 31, 2016, and have issued our report thereon dated November 30, 2017. Professional standards require that we advise you of the following matters relating to our audit.

#### **Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our letter dated June 5, 2017, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with cash basis accounting. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of Wandermere Estates Homeowners Association solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

#### **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

#### **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Wandermere Estates Homeowners Association is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2016. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments. No sensitive estimates affecting the financial statements were noted.

### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting Wandermere Estates Homeowners Association's financial statements relates to the use of the cash basis of accounting.

### **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

See the attached schedule for misstatements that we identified as a result of our audit procedures that were brought to the attention of, and corrected by, management.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.

### **Representations Requested from Management**

We have requested certain written representations from management that are included in the management representation letter dated November 30, 2017.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### **Other Significant Matters, Findings, or Issues**

With respect to the required supplementary information (RSI), we applied certain limited procedures to the Schedule of Future Major Repairs and Replacements, which is RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Operating Fund Expenses by Major Category, which accompanies the financial statements but is not required supplementary information (RSI). With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

In the normal course of our professional association with Wandermere Estates Homeowners Association, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Wandermere Estates Homeowners Association's auditors.

This report is intended solely for the information and use of the Board of Directors of Wandermere Estates Homeowners 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 "Eide Bailly LLP". The signature is fluid and cursive, with "Eide" and "Bailly" connected, and "LLP" in a smaller, separate section.

Spokane, Washington

Client: **Wandermere Estates Homeowners Association**  
 Engagement: **Wandermere Estates Homeowners Association**  
 Period Ending: **12/31/2016**  
 Workpaper: **Reclassifying Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Reclassifying Journal Entries JE # 1</b>				
To reclassify expenses incorrectly coded when initially recorded in the ledger.				
5114	Natural Area Landscaping		3,804.50	
5115	Vacant Lot Landscaping		3,804.50	
5101	Lawn Mowing (Expense)			7,609.00
<b>Total</b>			<b>7,609.00</b>	<b>7,609.00</b>
<b>Reclassifying Journal Entries JE # 2</b>				
To reclassify pass through expense/reimbursement to show as net.				
4204	Phase 1 Landscape Fees (Income)		14,081.00	
5121	Phase 1 Lawn Mowing (Expense)			14,081.00
<b>Total</b>			<b>14,081.00</b>	<b>14,081.00</b>



To the Board of Directors  
And Management of  
Wandermere Estates Homeowners Association  
Spokane, WA

In planning and performing our audit of the financial statements of Wandermere Estates Homeowners Association as of and for the year ended December 31, 2016, 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Wandermere Estates Homeowners Association's (the Organization'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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

We consider the following deficiency in Wandermere Estates Homeowners Association's internal control to be a material weakness:

In conjunction with the completion of our audit, we were requested to draft the financial statements and notes to those financial statements. Although this circumstance is not unusual in an organization of your size, the absence of controls over the preparation of financial statements increases the possibility that a misstatement of the financial statements could occur and not be prevented, or detected and corrected, by the entity's internal control. It is the responsibility of management and those charged with governance to determine whether to accept the degree of risk associated with the condition because of cost or other considerations.

During the course of our engagement, we proposed a material audit adjustment to the Organization's recorded account balances in the areas of revenues and expenses, which if not recorded, would have resulted in a material misstatement of the Organization's financial statements (see reclassifying entries summary on AU-260 communication letter). The need for these adjustments indicates that the Organization's financial information is not materially correct, which may affect management decisions made during the course of the year.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting 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 the entity'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.

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

A handwritten signature in black ink, appearing to read "Eddie Saurly LCP". The signature is cursive and fluid, with "Eddie" and "Saurly" being the most prominent parts.

Spokane, Washington  
November 30, 2017



Financial Statements  
December 31, 2016

## Wandermere Estates Homeowners Association

Wandermere Estates Homeowners Association

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December 31, 2016

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## Independent Accountant's Report

The Board of Directors  
Wandermere Estates Homeowners Association  
Spokane, WA

We have audited the accompanying financial statements of Wandermere Estates Homeowners Association, which comprise the statement of assets and fund balance – cash basis as of December 31, 2016, and the related statement of revenues, expenses, and changes in fund balance – 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, 2016, and the results of its operations for the year then ended, 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.

**Disclaimer of Opinion on Required Supplementary Information**

The Financial Accounting Standards Board (FASB) requires that the Schedule of Future Major Repairs and Replacements on page 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is considered by the FASB 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.



Spokane, Washington  
November 30, 2017

Wandermere Estates Homeowners Association  
 Statement of Assets and Fund Balance – Cash Basis  
 December 31, 2016

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	Operating Fund	Savings Fund	Reserve Fund	Total
Assets				
Cash	<u>\$ 343</u>	<u>24,154</u>	<u>\$ 61,392</u>	<u>\$ 85,889</u>
Fund Balances				
Fund Balances	<u>\$ 343</u>	<u>\$ 24,154</u>	<u>\$ 61,392</u>	<u>\$ 85,889</u>

**Wandermere Estates Homeowners Association**  
**Statement of Revenues, Expenses, and Changes in Fund Balance – Cash Basis**  
**Year Ended December 31, 2016**

	<b>Operating Fund</b>	<b>Savings Fund</b>	<b>Reserve Fund</b>	<b>Total</b>
<b>Revenues</b>				
Members' assessments				
Regular assessments	\$ 163,034	\$ -	\$ -	\$ 163,034
Late fees and interest	145	59	40	244
Other	2,482	-	-	2,482
Total revenues	<u>165,661</u>	<u>59</u>	<u>40</u>	<u>165,760</u>
<b>Operating Expenses</b>				
Insurance	3,302	-	-	3,302
Landscaping	36,916	-	-	36,916
Maintenance	7,025	-	-	7,025
Marketing	898	-	-	898
Office expense	2,143	-	-	2,143
Other administrative expenses	68,825	-	-	68,825
Payroll	4,003	-	-	4,003
Payroll taxes	189	-	-	189
Real estate taxes and licenses	476	-	-	476
Streets	21,145	-	-	21,145
Utilities	21,151	-	-	21,151
Total operating expenses	<u>166,073</u>	<u>-</u>	<u>-</u>	<u>166,073</u>
<b>Net of Revenues and Expenses</b>	<b>(412)</b>	<b>59</b>	<b>40</b>	<b>(313)</b>
Beginning Fund Balances	5,550	47,200	33,452	86,202
Net transfer between funds	(4,795)	(23,105)	27,900	-
Ending Fund Balances	<u>\$ 343</u>	<u>\$ 24,154</u>	<u>\$ 61,392</u>	<u>\$ 85,889</u>

## **Note 1 - Principal Business Activity and 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 140 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 statement of assets and fund balance – cash basis and (b) accounts payable are not calculated or recorded in the statement of assets and fund balance – cash basis.

### **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.

### **Subsequent Events**

The Association has evaluated subsequent events through November 30, 2017, the date which the financial statements were available to be issued.

Wandermere Estates Homeowners Association  
Notes to Financial Statements  
December 31, 2016

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**Note 2 - Income Taxes**

Homeowners associations may be taxed either as homeowners associations or as regular corporations. For the year ended December 31, 2016, the Association was taxed as a regular corporation and filed Form 1120.

**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 \$61,392 at December 31, 2016, are held in a separate account and are generally not available for operating purposes.

In prior periods and for the year ended December 31, 2016, 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, 2016.

In accordance with state of Washington RCW 64.38.065, the Association's board of directors initiated a reserve study in November 2016 to estimate 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.

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 - Concentrations 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.



Required Supplementary Information  
December 31, 2016

## **Wandermere Estates Homeowners Association**

Wandermere Estates Homeowners Association  
Future Major Repairs and Replacements - Unaudited  
December 31, 2016

In November 2016, Criterium-PFAFF Engineers. was engaged to prepare an estimate for the future repairs and replacements of the Association. The Association's Board of Directors engaged Criterium-PFAFF Engineers. to establish the remaining useful lives and the replacement costs of the components of the general common areas.

Replacement costs were based on the estimated costs to repair or replace the components at the date of the study, with a 2% adjustment for inflation.

The following information is based on the study and presents significant information about the components of all major repairs.

Components	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Cost
Engineering study-runoff diversion	1	\$ 8,000
Wandermere Estates Lane-runoff diversion	2	20,000
Seal asphalt pathways	1	2,686
Seal Lakeview, lower Wandermere Estates Ln.	5	13,855
Seal Copper Canyon, Alphine, mid-Wandermere Estates Ln.	5	36,680
Seal upper streets	5	22,618
Chip seal Lakeview, lower Wandermere Estates Ln.	15	107,764
Chip seal Copper Canyon, Alphine, mid-Wand. Est.	20	285,286
Chip seal upper streets	25	175,917
Copper Canyon private drive-rebuild	9	25,424
Concrete flatwork-replace deteriorated sections	12	2,606
Pedestrian bridge-rebuild	12	8,500
Replace gate operators and controls	2	8,550
Major landscaping allowance	2	2,000
Replace mailboxes	3	13,500
Street lights-recoat poles	13	22,100
Vinyl fences-replace	17	25,608
Wood fences-replace	10	7,500
Chain link fences-replace	30	32,296
		\$ 820,890