

**WANDERMERE ESTATES
HOMEOWNERS ASSOCIATION**

**FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Wandermere Estates Homeowners Association

TABLE OF CONTENTS

December 31, 2019

FINANCIAL SECTION

Independent Auditor's Report	1 - 2
Statement of Assets and Net Assets – Cash Basis	3
Statement of Revenues, Expenses and Changes in Net Assets – Cash Basis	4
Statement of Functional Expenses – Cash Basis	5
Notes to the Financial Statements	6 - 9

SUPPLEMENTARY INFORMATION

Future Major Repairs and Replacements – Unaudited.....	10
--	----

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Wandermere Estates Homeowners Association
Spokane, WA 99201

Report on the Financial Statements

We have audited the accompanying financial statements of Wandermere Estates Homeowners Association (a Washington corporation) (the "Association"), which comprise the statement of assets and net assets – cash basis as of December 31, 2019, and the related statements of revenues, expenses and changes in net assets – cash basis, and functional expenses – 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 these 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and net assets of Wandermere Estates Homeowners Association as of December 31, 2019, and its revenues, expenses, and changes in net assets during the year then ended in accordance with the cash basis of accounting 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information about future major repairs and replacements of common property on page 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Magnuson, McHugh & Company, P.A.

MAGNUSON, MCHUGH & COMPANY, P.A.

March 11, 2021

Wandermere Estates Homeowners Association

STATEMENT OF ASSETS AND NET ASSETS

CASH BASIS

December 31, 2019

	<u>Operating Fund</u>	<u>Savings Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash, including interest-bearing deposits	<u>\$ 16,587</u>	<u>\$ 22,495</u>	<u>\$ 86,339</u>	<u>\$ 125,421</u>
NET ASSETS	<u>\$ 16,587</u>	<u>\$ 22,495</u>	<u>\$ 86,339</u>	<u>\$ 125,421</u>

The accompanying "Notes to the Financial Statements"
are an integral part of this statement.

Wandermere Estates Homeowners Association
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
CASH BASIS
For the Year Ended December 31, 2019

	<u>Operating Fund</u>	<u>Savings Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
REVENUES:				
Members' assessments:				
Regular assessments	\$ 166,319	\$ -	\$ -	\$ 166,319
Late fees and interest	288	120	863	1,271
Other	14,135	-	-	14,135
Total revenues	<u>180,742</u>	<u>120</u>	<u>863</u>	<u>181,725</u>
OPERATING EXPENSES:				
Program	161,756	-	-	161,756
Management and general	31,711	-	-	31,711
Total operating expenses	<u>193,467</u>	<u>-</u>	<u>-</u>	<u>193,467</u>
MAJOR REPAIRS AND REPLACEMENTS	<u>-</u>	<u>-</u>	<u>51,304</u>	<u>51,304</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(12,725)	120	(50,441)	(63,046)
NET TRANSFERS BETWEEN FUNDS	(6,672)	(19,997)	26,669	-
NET ASSETS, beginning of year	<u>35,984</u>	<u>42,372</u>	<u>110,111</u>	<u>188,467</u>
NET ASSETS, end of year	<u>\$ 16,587</u>	<u>\$ 22,495</u>	<u>\$ 86,339</u>	<u>\$ 125,421</u>

The accompanying "Notes to the Financial Statements"
are an integral part of this statement.

Wandermere Estates Homeowners Association
STATEMENT OF FUNCTIONAL EXPENSES
CASH BASIS
For the Year Ended December 31, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Insurance	\$ -	\$ 3,076	\$ 3,076
Landscaping	78,585	-	78,585
Maintenance	21,961	-	21,961
Advertising and marketing	-	1,016	1,016
Office expense	-	2,991	2,991
Other administrative expenses	-	24,139	24,139
Real estate taxes and licenses	-	489	489
Streets	35,978	-	35,978
Utilities	25,232	-	25,232
	<u>\$ 161,756</u>	<u>\$ 31,711</u>	<u>\$ 193,467</u>

The accompanying "Notes to the Financial Statements"
are an integral part of this statement.

Wandermere Estates Homeowners Association

NOTES TO THE FINANCIAL STATEMENTS December 31, 2019

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 161 residential units located on approximately 19 acres in Spokane, WA.

Basis of Accounting

The accompanying financial statements have been prepared on the cash 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 net assets – cash basis and (b) accounts payable are not calculated or recorded in the statement of assets and net assets – cash basis.

Basis of presentation

The financial statement presentation follows the requirements of Financial Accounting Standards Board (FASB) Update 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities. Under ASC 958, the Association is required to report information regarding its financial position and activities to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions:

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Association. These net assets may be used at the discretion of the Association's management and the board of directors.

Net assets with donor restrictions:

Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

The Association does not report any restrictions on net assets as of the dates of the financial statements.

Wandermere Estates Homeowners Association

NOTES TO THE FINANCIAL STATEMENTS December 31, 2019

NOTE 1: PRINCIPAL BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Liquidity and Availability

As of December 31, 2019, the Association has \$125,421 of financial assets available within one year of the statement of assets and net assets date to meet cash needs for general expenditures, consisting entirely of cash. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of assets and net assets date. The Association has a policy to structure its financial assets to be available as its general expenditures and obligations come due.

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.

Cash and Cash Equivalents

Cash and cash equivalents include all cash accounts and short-term liquid investments without donor restriction, having an original maturity of three months or less.

Wandermere Estates Homeowners Association

NOTES TO THE FINANCIAL STATEMENTS December 31, 2019

NOTE 1: PRINCIPAL BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

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.

Advertising and Marketing

The Association's policy is to expense advertising and marketing costs when incurred. These costs consisted of \$1,016 for the year ended December 31, 2019.

NOTE 2: INCOME TAXES

Homeowners associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2019, the Association was taxed as a homeowners association and filed Form 1120-H.

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 \$86,339 at December 31, 2019, are held in a separate account and are generally not available for operating purposes.

In prior periods and for the year ended December 31, 2019, the Association funded the reserve fund for major repair and replacement expenditures from excess operating fund assessments.

In accordance with the 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 included 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.

Wandermere Estates Homeowners Association

NOTES TO THE FINANCIAL STATEMENTS December 31, 2019

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.

NOTE 5: SUBSEQUENT EVENTS

During January 2020, the Governor of Washington ordered a statewide shutdown in response to the global Coronavirus pandemic. The Association does not believe that financial operations will be materially impacted as a result, however the total impact of the pandemic is not known as of the date of these financial statements.

No other events have occurred through March 11, 2021, which is the date the financial statements were available to be issued, based on client facts and circumstances, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2019.

NOTE 6: FUNCTIONAL EXPENSES

The costs of the Association's expenses have been summarized on a functional basis in the statements of revenues, expenses and changes in net assets – cash basis. Accordingly, certain costs have been allocated among program services and management and general services. Such allocations are determined by management on an equitable basis. The expenses allocated to program services were done so based on estimated time and effort. Management and general expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Association.

Wandermere Estates Homeowners Association

FUTURE MAJOR REPAIRS AND REPLACEMENTS - UNAUDITED

December 31, 2019

See Independent Auditor's Report

In November 2016, Criterium-PFAFF Engineers, was engaged to prepare an estimate for future repairs and replacements of the Association. The Association 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 division	2	20,000
Seal asphalt pathways	1	2,686
Seal Lakeview, lower Wandermere Estates Lane	5	13,855
Seal Copper Canyon, Alphone, mid-Wandermere Estates	5	36,680
Seal upper streets	5	22,618
Chip seal Lakeview, lower Wandermere Estates Lane	15	107,764
Chip seal Copper Canyon, Alphone, mid-Wandermere Estates	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
Total future repairs and replacements		<u>\$ 820,890</u>

See Note 3 to the financial statements for additional information regarding the reserve study and future repair and replacement costs.