



Review Report of Independent Accountants  
and Consolidated Financial Statements  
with Supplementary Information for

**Building Industry Association  
of Washington and Subsidiary**

December 31, 2015 and 2014

**MOSS ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

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## REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors  
Building Industry Association of Washington and Subsidiary

We have reviewed the accompanying consolidated statements of financial position of Building Industry Association of Washington and Subsidiary (the "Company"), which comprise the consolidated statements of net assets as of December 31, 2015 and 2014, and the related consolidated statement of activities and changes in net assets and statement of cash flows for the years then ended and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement whether due to fraud or error.

### ***Accountants' Responsibility***

Our responsibility is to conduct the review engagement(s) in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the (consolidated) financial statements for them to be in accordance with the accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### ***Accountants' Conclusion***

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

### ***Supplementary Information***

The supplementary information included on pages 13 through 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of management. We have reviewed the information and, based on our review, we are not aware of any material modifications that should be made to the information in order for it to be in accordance with accounting principles generally accepted in the United States of America. We have not audited the information and, accordingly, do not express an opinion on such information.



Tacoma, Washington  
June 7, 2016

**BUILDING INDUSTRY ASSOCIATION OF WASHINGTON AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

<b>ASSETS</b>		December 31,	
		2015	2014
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$	3,466,393	\$ 2,305,523
Restricted cash		177,381	342,847
Accounts receivable		51,715	12,039
Marketable securities		1,078,634	930,658
Investments limited for use		25,706,832	15,265,429
Prepaid expenses		8,125	41,893
Total current assets		30,489,080	18,898,389
<b>PROPERTY, PLANT, AND EQUIPMENT</b>			
Building and improvements		1,506,676	1,506,676
Land		416,700	416,700
Equipment		352,868	356,783
		2,276,244	2,280,159
Less accumulated depreciation and amortization		1,015,094	982,985
Property, plant, and equipment, net		1,261,150	1,297,174
<b>OTHER ASSETS</b>			
Deferred tax asset		1,960,280	2,235,007
		\$ 33,710,510	\$ 22,430,570
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$	59,844	\$ 62,244
Settlement payable		362,000	-
Members' distribution payable		25,706,832	15,265,429
Accrued expenses		144,911	128,017
Total liabilities		26,273,587	15,455,690
<b>UNRESTRICTED NET ASSETS</b>		7,436,923	6,974,880
		\$ 33,710,510	\$ 22,430,570

**BUILDING INDUSTRY ASSOCIATION OF WASHINGTON AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS**

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	Year Ended December 31,	
	2015	2014
REVENUES		
R.O.I.I. program administrative fees	\$ 1,722,000	\$ 1,242,000
Retrospective rating program	1,653,829	1,768,947
Retrospective rating enrollment fees	1,160,149	779,774
Membership dues	648,330	696,250
Health insurance program fees	558,174	530,111
Education program fees	270,248	199,966
Miscellaneous	59,561	71,270
	<u>6,072,291</u>	<u>5,288,318</u>
OPERATING EXPENSES		
Salaries and benefits	2,559,506	2,198,974
Independent contractor	985,325	521,299
Miscellaneous	627,862	716,972
Education program	219,704	176,356
Accounting and legal	194,584	279,405
Advertising and promotion	166,512	170,074
Maintenance	152,085	162,025
Depreciation	57,083	58,153
	<u>4,962,661</u>	<u>4,283,258</u>
INCOME FROM OPERATIONS	<u>1,109,630</u>	<u>1,005,060</u>
OTHER INCOME (EXPENSE)		
Realized gain on investments	35,500	1,701
Investment interest and dividends	28,737	19,548
Unrealized gain (loss) on investments	(66,413)	44,572
Settlement	(362,000)	-
	<u>(364,176)</u>	<u>65,821</u>
INCOME BEFORE FEDERAL INCOME TAXES	<u>745,454</u>	<u>1,070,881</u>
FEDERAL INCOME TAX EXPENSE		
Current	(8,684)	-
Deferred	(274,727)	(286,535)
	<u>(283,411)</u>	<u>(286,535)</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>462,043</u>	<u>784,346</u>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>6,974,880</u>	<u>6,190,534</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 7,436,923</u>	<u>\$ 6,974,880</u>

**BUILDING INDUSTRY ASSOCIATION OF WASHINGTON AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in unrestricted net assets	\$ 462,043	\$ 784,346
Adjustments to reconcile change in unrestricted net assets to net cash provided by (used in) operating activities		
Depreciation	57,083	58,153
Unrealized loss (gain) on investments	66,413	(44,572)
Gain on sale of investments	(35,500)	(1,718)
Deferred income tax	274,727	286,535
Changes in operating assets and liabilities		
Receivables	(39,676)	220,982
Prepaid expenses	33,768	(41,893)
Accounts payable	(2,400)	(12,650)
Related party accounts payable	-	(2,422)
Settlement payable	362,000	(4,500,000)
Accrued expenses	16,894	15,374
Net cash from operating activities	<u>1,195,352</u>	<u>(3,237,865)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in restricted cash	165,466	(324,026)
Proceeds from sale of securities	139,050	5,195
Purchase of equipment	(21,059)	(24,732)
Purchase of marketable securities	<u>(317,939)</u>	<u>(177,935)</u>
Net cash from investing activities	<u>(34,482)</u>	<u>(521,498)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	1,160,870	(3,759,363)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>2,305,523</u>	<u>6,064,886</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 3,466,393</u>	<u>\$ 2,305,523</u>

# **BUILDING INDUSTRY ASSOCIATION OF WASHINGTON AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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## **Note 1 - Description of Operations and Summary of Significant Accounting Policies**

**Operations** - Building Industry Association of Washington (the "Association") was incorporated as a tax-exempt, nonprofit organization on November 23, 1966, and Member Services Corporation (the "Subsidiary") was incorporated as a domestic for-profit organization on October 13, 1993. The Association's primary purpose is to associate individuals and companies engaged in residential construction and associated businesses and professions within the state of Washington, who are members of local home builder chapters in the state of Washington. The Subsidiary's primary purpose is to provide information on new developments and issues regarding the industry via newsletters, meetings, and conferences, and to monitor new legislative and Department of Labor and Industries issues that affect the industry. The Subsidiary is also the plan administrator of the Return on Industrial Insurance ("R.O.I.I.") program from the State of Washington Department of Labor and Industries ("L&I") and also provides all administrative duties and responsibilities of the program.

The R.O.I.I. Program is a retrospective ratings group with the purpose of providing local homebuilders' association members with the opportunity to receive refunds of their Washington State L&I industrial insurance premiums. There are 14 local homebuilders' associations in the State of Washington, which are based at the county or region level. Local associations are chartered by the National Association of Home Builders ("NAHB"). The Association is also separately chartered by NAHB. A portion of membership dues paid to local associations are paid to the Association and NAHB. The Association and the local associations are separate entities and do not share common control.

A R.O.I.I. plan year is from July 1 to June 30 of the following year. During the plan year, R.O.I.I. Program members remit quarterly premiums directly to L&I. One year following the end of the plan year, L&I calculates the first of three adjustments. A second adjustment is calculated one year later, and a third and final adjustment one year after that. The Subsidiary typically receives three L&I adjustments in one fiscal year. If group premiums exceed losses for the plan year, a refund is distributed. If losses exceed premiums, members may be assessed additional premiums of up to 40% of their premiums for the plan year.

During 2015, the Subsidiary received the first adjustment from L&I for the 2013-2014 Plan Year and the second adjustment for the 2012-2013 Plan Year for the R.O.I.I. program. The funds limited for use are recorded as an asset and an adjacent liability is recorded for the distribution payable to members. At December 31, 2015 and 2014, the investments limited for use had fair market values of \$25,706,832 and \$15,265,429, respectively. At December 31, 2015, the investments limited for use include \$433,683 in unrealized losses. At December 31, 2014, the investments limited for use include \$437,633 in unrealized gains.

**Principles of consolidation** - The accompanying consolidated financial statements included the accounts of Building Industry Association of Washington and Member Services Corporation (here on, collectively, the "Association"). All significant intercompany balances and transactions among the consolidated associations have been eliminated in the accompanying consolidated financial statements.

# BUILDING INDUSTRY ASSOCIATION OF WASHINGTON AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### **Note 1 - Description of Operations and Summary of Significant Accounting Policies (continued)**

**Basis of accounting** - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Basis of presentation** - ASC 958, *Not-for-Profit Entities*, requires that the Association report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Unrestricted net assets* - Unrestricted net assets are funds controlled and designated by the Board of Directors which include the general, operating, and equipment accounts.

*Temporarily restricted net assets* - Temporarily restricted net assets are assets with donor-imposed restrictions that allow the use of the assets as specified either by the passage of time or by actions of the Association. The Association has no temporarily restricted net assets at December 31, 2015 and 2014.

*Permanently restricted net assets* - Permanently restricted net assets are controlled by law or donor-imposed restrictions stating the resources be maintained permanently. The Association has no permanently restricted net assets at December 31, 2015 and 2014.

**Revenue recognition** - The Association recognizes revenue when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price charged is fixed or determinable, and collectability is reasonably assured.

**Cash and cash equivalents** - All highly liquid investments with an original maturity of three months or less when purchased are considered cash equivalents.

**Restricted cash** - The Association has classified as restricted certain cash and cash equivalents that are not available for use in its operations.

**Investments** - The Association records its investments in accordance with ASC No. 958, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under ASC No. 958, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the balance sheet. The Association currently holds investments in mutual funds and exchange traded funds. Unrealized gains and losses are included in the statement of activities and changes in net assets (see Note 3).

ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820-10 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.



# **BUILDING INDUSTRY ASSOCIATION OF WASHINGTON AND SUBSIDIARY**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Note 1 - Description of Operations and Summary of Significant Accounting Policies (continued)**

The standard describes three levels of inputs that may be used to measure fair value:

**Level 1** - Quoted prices in active markets for identical assets or liabilities.

**Level 2** - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full-term of the assets or liabilities.

**Level 3** - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

**Property and equipment** - Land, building, and equipment are recorded at cost if purchased, or at fair market value at the date of receipt if donated. Depreciation is computed using the straight-line method over estimated useful lives. Management reviews assets periodically for obsolescence and impairment. The Association capitalizes assets with a cost of over \$500 and a life of at least two years.

**Accrued liabilities** - Accrued liabilities primarily consist of paid time off and payroll related taxes. Accrued paid time off ("PTO") is accumulated up to two hundred (200) hours for all employees. Liability for PTO totals \$97,847 and \$91,081 for the years ended December 31, 2015 and 2014, respectively.

**Income taxes** - The Association is recognized by the Internal Revenue Service as a qualified tax-exempt entity under the provisions of Internal Revenue Code Section 501(c)(6). However, certain revenues generated by the Subsidiary are considered taxable. The Subsidiary's federal income tax return is prepared using the income tax basis of accounting. The different methods of accounting for financial statement and income tax purposes require the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statements and tax bases of assets and liabilities at the enacted tax rates. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Subsidiary evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization include the Subsidiary's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Subsidiary's effective tax rate on future earnings.

The Association has adopted the provisions of ASC 740-10, *Income Taxes*, relating to accounting for uncertain tax positions. The Association recognizes tax benefits from uncertain tax positions only if it is more likely than not, based upon the technical merits of the position, that the tax positions will be sustained on examination by the tax authorities. The tax benefit is measured based upon the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Association did not have any uncertain tax positions at December 31, 2015 or 2014.

# **BUILDING INDUSTRY ASSOCIATION OF WASHINGTON AND SUBSIDIARY**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Note 1 - Description of Operations and Summary of Significant Accounting Policies (continued)**

In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-17, *Balance Sheet Classification of Deferred Taxes*, to simplify the presentation of deferred income taxes. The amendments in this update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The Company has elected to early adopt ASU 2015-17 as of December 31, 2015, and retrospectively applied ASU 2015-17 to all periods presented, which did not have a material impact on the consolidated financial statements.

**Use of estimates** - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosure of certain assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**Subsequent events** - Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Association recognizes in the financial statement the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Association's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

The Association has evaluated subsequent events through June 7, 2016, the date the financial statements were available to be issued.

**Reclassifications** - Certain amounts in the 2014 financial statements have been reclassified to be comparable with current year presentation. Such reclassifications have no effect on previously reported operating results.

### **Note 2 - Concentration of Credit Risk**

Financial instruments that potentially subject the Association to concentrations of credit risk consist of cash, accounts receivable, and investments.

At times, cash and investments in bank deposit account balances exceed federally insured limits.

Receivables at December 31, 2015 and 2014, consist of amounts due from members for services. The Association deems all amounts to be fully collectable. Therefore, no allowance for uncollectable accounts has been established.

# BUILDING INDUSTRY ASSOCIATION OF WASHINGTON AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### Note 3 - Fair Value of Investments

The following methods and assumptions were used by the Association in estimating the fair value of its financial instruments.

**Available-for-sale securities** - Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

The following table discloses, by level, the fair value hierarchy of marketable securities at December 31:

Fair Value Measurement at December 31, 2015				
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 970,950	\$ -	\$ -	\$ 970,950
Exchange traded funds	107,684	-	-	107,684
	\$ 1,078,634	\$ -	\$ -	\$ 1,078,634
Fair Value Measurement at December 31, 2014				
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 841,137	\$ -	\$ -	\$ 841,137
Exchange traded funds	89,521	-	-	89,521
	\$ 930,658	\$ -	\$ -	\$ 930,658

The following table discloses, by level, the fair value hierarchy of investments limited for use at December 31:

Fair Value Measurement at December 31, 2015				
	Level 1	Level 2	Level 3	Total
Interest bearing cash	\$ 360,031	\$ -	\$ -	\$ 360,031
Mutual funds	20,395,235	-	-	20,395,235
Exchange traded funds	4,951,566	-	-	4,951,566
	\$ 25,706,832	\$ -	\$ -	\$ 25,706,832
Fair Value Measurement at December 31, 2014				
	Level 1	Level 2	Level 3	Total
Interest bearing cash	\$ 238,655	\$ -	\$ -	\$ 238,655
Mutual funds	12,273,580	-	-	12,273,580
Exchange traded funds	2,753,194	-	-	2,753,194
	\$ 15,265,429	\$ -	\$ -	\$ 15,265,429

# BUILDING INDUSTRY ASSOCIATION OF WASHINGTON AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### Note 4 - Return on Industrial Insurance

The Association receives a state industrial insurance rebate annually from the Department of Labor and Industries related to industrial insurance premiums paid by members for prior years. As an associated group, the Association monitors claims filed by the member employees. The monitoring and follow-up, coupled with safety programs for the Association's members, helps reduce the actual claim experience of the group below that of other contractors statewide. As a result, the difference between what has been paid by members to the state of Washington Department of Labor and Industries (the state-wide rate) and the rate based upon their actual experience results in an annual refund. The Association retains a portion of the refund for their services, sends individual refund checks to the local association's members, and sends the local association's a portion for their efforts. The portion retained by the Association is included in revenue as retrospective rating program and retrospective rating enrollment fee revenues. There are no outstanding checks written to Association members that were not cashed, thus voided and held, to be paid in the following year at either December 31, 2015 or 2014.

### Note 5 - Deferred Income Taxes

As of December 31, 2015 and 2014, the Association and its Subsidiary had no unrecognized tax benefits. The current deferred tax asset arises from timing differences of deductions on the income tax basis vs. GAAP basis. The noncurrent deferred tax asset resulting from accumulated net operating losses that are deductible against taxable income in future years. As of December 31, 2015 and 2014, there was no valuation allowance associated with the deferred tax asset.

Significant components of the deferred tax assets and liabilities at December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Deferred tax assets		
Accrued vacation	\$ 25,184	\$ 24,912
Net operating loss carryforward	<u>1,935,096</u>	<u>2,210,095</u>
Total deferred tax assets	<u>\$ 1,960,280</u>	<u>\$ 2,235,007</u>

The significant items causing a difference between the Subsidiary's statutory federal tax rate and its effective tax rate are as follows:

	<u>2015</u>	<u>2014</u>
Federal statutory rate	34.00%	34.00%
Permanent differences	<u>5.30%</u>	<u>12.45%</u>
Effective income tax rate	<u>39.30%</u>	<u>46.45%</u>

At December 31, 2015 and 2014, the Subsidiary has a net operating loss carryforward of approximately \$5,665,917 and \$6,500,280 available to offset future taxable income which will begin to expire in 2031. There were no interest and penalties accrued for the year ended 2015 as a result of tax liabilities.

## **BUILDING INDUSTRY ASSOCIATION OF WASHINGTON AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Note 6 - Contingencies**

**Legal matters** - The Association periodically has claims and complaints relating to matters arising in the ordinary course of business.

**RE Sources lawsuit** - In 2008, five companies filed a civil lawsuit in Thurston County Superior Court against BIAW and related parties alleging breach of fiduciary duties. Eight beneficiaries joined the lawsuit in support of BIAW and in opposition to petitioners' claims. The trial court rejected claims for damages. However, the petitioners appealed the trial court's decision.

In January 2013, the Court of Appeals ruled and reversed many of the trial court findings and remanded certain issues back to the trial court. The Court of Appeals also awarded attorney fees to the plaintiffs. BIAW, MSC and the WBBT Trustees have appealed the Court of Appeals decision to the State Supreme Court which did not hear the case.

On October 30, 2013, a settlement agreement was reached for the RE Sources and Peak Enterprises cases with plaintiffs and their attorneys.

On February 28, 2014, the Judge gave approval to the settlement agreement, authorized a mailing to the R.O.I.I. participants from 1994 thru 2013 and set a hearing for June 6, 2014. The Judge also combined RE Sources into the Peak Enterprises case.

On June 6, 2014, the Judge gave final approval to the settlement agreement for both cases combined. In July 2014, the funds were distributed as per the settlement agreement to the attorneys and trust beneficiaries. This case is now complete and finished.

**Peak Enterprises Inc. lawsuit** - In January 2012, three companies filed a civil lawsuit in Thurston County Superior Court against BIAW and related parties alleging breach of fiduciary duties. The lawsuit is nearly identical to the RE Sources lawsuit except that it purports to raise claims for an earlier time period (1997-2003).

On October 30, 2013, a settlement agreement was reached for the RE Sources and Peak Enterprises cases with plaintiffs and their attorneys.

On February 28, 2014, the Judge gave approval to the settlement agreement, authorized a mailing to the R.O.I.I. participants from 1994 thru 2013 and set a hearing for June 6, 2014. The Judge also combined RE Sources into the Peak Enterprises case.

On June 6, 2014, the Judge gave final approval to the settlement agreement for both cases combined. In July 2014, the funds were distributed as per the settlement agreement to the attorneys and trust beneficiaries. This case is now complete and finished.

**BUILDING INDUSTRY ASSOCIATION OF WASHINGTON AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 6 - Contingencies (continued)**

**Utter - Ireland lawsuit** - Two former Washington Supreme Court justices (“the plaintiffs”) filed suit against BIAW alleging that BIAW operated like a political action committee in 2008 during the efforts to provide independent expenditure support for governor candidate Dino Rossi. In 2010, the Association won summary judgment on all claims. The plaintiffs appealed, and in September 2013, the Court of Appeals issued an opinion in favor of the Association. In response to the plaintiff’s request, the Washington Supreme Court heard oral arguments in May 2014, then reversed the Court of Appeals and remanded to the trial court in January 2015.

On April 6, 2016, a settlement agreement was reached for the plaintiffs and their attorneys for \$582,000. BIAW was also responsible for \$5,000 in penalties to the State of Washington. BIAW received a \$225,000 reimbursement from their insurance to pay for the settlement. The net \$362,000 payment is included as a payable at December 31, 2015. The settlement was finalized by the courts in April 2016.

**SUPPLEMENTARY INFORMATION**

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**BUILDING INDUSTRY ASSOCIATION OF WASHINGTON AND SUBSIDIARY  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2015**

	Building Industry Association of Washington	Member Services Corporation	Eliminations	Total
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 2,453,381	\$ 1,013,012	\$ -	\$ 3,466,393
Restricted cash	177,210	171	-	177,381
Accounts receivable	51,715	-	-	51,715
Marketable securities	1,078,634	-	-	1,078,634
Investments limited for use	-	25,706,832	-	25,706,832
Intercompany receivables	6,974,260	-	(6,974,260)	-
Prepaid expenses	8,125	-	-	8,125
	<u>10,743,325</u>	<u>26,720,015</u>	<u>(6,974,260)</u>	<u>30,489,080</u>
<b>PROPERTY, PLANT, AND EQUIPMENT</b>				
Building and improvements	-	1,506,676	-	1,506,676
Land	-	416,700	-	416,700
Equipment	24,326	328,542	-	352,868
	24,326	2,251,918	-	2,276,244
Less accumulated depreciation and amortization	<u>24,326</u>	<u>990,768</u>	<u>-</u>	<u>1,015,094</u>
Land, buildings, and equipment, net	<u>-</u>	<u>1,261,150</u>	<u>-</u>	<u>1,261,150</u>
<b>OTHER ASSETS</b>				
Note receivable - MSC	4,500,000	-	(4,500,000)	-
Deferred tax asset	<u>-</u>	<u>1,960,280</u>	<u>-</u>	<u>1,960,280</u>
Total assets	<u>\$ 15,243,325</u>	<u>\$ 29,941,445</u>	<u>\$(11,474,260)</u>	<u>\$ 33,710,510</u>
<b>CURRENT LIABILITIES</b>				
Intercompany accounts payable	\$ -	\$ 6,974,260	\$ (6,974,260)	\$ -
Accounts payable	36,638	23,206	-	59,844
Settlement payable	362,000	-	-	362,000
Members' distribution payable	-	25,706,832	-	25,706,832
Accrued expenses	<u>-</u>	<u>144,911</u>	<u>-</u>	<u>144,911</u>
Total current liabilities	398,638	32,849,209	(6,974,260)	26,273,587
NOTE PAYABLE - BIAW	-	4,500,000	(4,500,000)	-
UNRESTRICTED NET ASSETS (DEFICIT)	<u>14,844,687</u>	<u>(7,407,764)</u>	<u>-</u>	<u>7,436,923</u>
	<u>\$ 15,243,325</u>	<u>\$ 29,941,445</u>	<u>\$(11,474,260)</u>	<u>\$ 33,710,510</u>



**BUILDING INDUSTRY ASSOCIATION OF WASHINGTON AND SUBSIDIARY  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2014**

	Building Industry Association of Washington	Member Services Corporation	Eliminations	Total
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 1,597,428	\$ 708,095	\$ -	\$ 2,305,523
Restricted cash	342,236	611	-	342,847
Accounts receivable	12,039	-	-	12,039
Marketable securities	930,658	-	-	930,658
Investments limited for use	-	15,265,429	-	15,265,429
Intercompany receivables	7,471,153	-	(7,471,153)	-
Prepaid expenses	9,593	32,300	-	41,893
	<u>10,363,107</u>	<u>16,006,435</u>	<u>(7,471,153)</u>	<u>18,898,389</u>
<b>PROPERTY, PLANT, AND EQUIPMENT</b>				
Building and improvements	-	1,506,676	-	1,506,676
Land	-	416,700	-	416,700
Equipment	24,325	332,458	-	356,783
	24,325	2,255,834	-	2,280,159
Less accumulated depreciation and amortization	24,325	958,660	-	982,985
	<u>-</u>	<u>1,297,174</u>	<u>-</u>	<u>1,297,174</u>
<b>OTHER ASSETS</b>				
Note receivable - MSC	4,500,000	-	(4,500,000)	-
Deferred tax asset	-	2,235,007	-	2,235,007
	<u>\$ 14,863,107</u>	<u>\$ 19,538,616</u>	<u>\$(11,971,153)</u>	<u>\$ 22,430,570</u>
<b>CURRENT LIABILITIES</b>				
Intercompany accounts payable	\$ -	\$ 7,471,153	\$ (7,471,153)	\$ -
Accounts payable	42,672	19,572	-	62,244
Members' distribution payable	-	15,265,429	-	15,265,429
Accrued expenses	-	128,017	-	128,017
	42,672	22,884,171	(7,471,153)	15,455,690
NOTE PAYABLE - BIAW	-	4,500,000	(4,500,000)	-
UNRESTRICTED NET ASSETS (DEFICIT)	<u>14,820,435</u>	<u>(7,845,555)</u>	<u>-</u>	<u>6,974,880</u>
	<u>\$ 14,863,107</u>	<u>\$ 19,538,616</u>	<u>\$(11,971,153)</u>	<u>\$ 22,430,570</u>

**BUILDING INDUSTRY ASSOCIATION OF WASHINGTON AND SUBSIDIARY  
CONSOLIDATING STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2015**

	Building Industry Association of Washington	Member Services Corporation	Eliminations	Total
<b>REVENUES</b>				
R.O.I.I. program administrative fees	\$ -	\$ 1,722,000	\$ -	\$ 1,722,000
Retrospective rating program	-	1,653,829	-	1,653,829
Retrospective rating enrollment fees	-	1,160,149	-	1,160,149
Membership dues	648,330	-	-	648,330
Health insurance program fees	558,174	-	-	558,174
Education program fees	270,248	-	-	270,248
Miscellaneous	146,330	52,731	(139,500)	59,561
	<u>1,623,082</u>	<u>4,588,709</u>	<u>(139,500)</u>	<u>6,072,291</u>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	442,606	2,116,900	-	2,559,506
Independent contractor	218,577	766,748	-	985,325
Miscellaneous	213,174	414,688	-	627,862
Education program	219,704	-	-	219,704
Accounting and legal	41,850	152,734	-	194,584
Advertising and promotion	73,588	92,924	-	166,512
Maintenance	21,881	130,204	-	152,085
Depreciation	-	57,083	-	57,083
	<u>1,231,380</u>	<u>3,731,281</u>	<u>-</u>	<u>4,962,661</u>
	<u>391,702</u>	<u>857,428</u>	<u>(139,500)</u>	<u>1,109,630</u>
<b>INCOME FROM OPERATIONS</b>				
<b>OTHER INCOME (EXPENSE)</b>				
Realized gain on investments	35,500	-	-	35,500
Investment interest and dividends	25,464	3,273	-	28,737
Interest expense	-	(139,500)	139,500	-
Unrealized loss on investments	(66,413)	-	-	(66,413)
Settlement	(362,000)	-	-	(362,000)
	<u>(367,449)</u>	<u>(136,227)</u>	<u>139,500</u>	<u>(364,176)</u>
	<u>24,253</u>	<u>721,201</u>	<u>-</u>	<u>745,454</u>
<b>INCOME BEFORE FEDERAL INCOME TAXES</b>				
<b>FEDERAL INCOME TAX EXPENSE</b>				
Current	-	(8,684)	-	(8,684)
Deferred	-	(274,727)	-	(274,727)
	<u>-</u>	<u>(283,411)</u>	<u>-</u>	<u>(283,411)</u>
	<u>\$ 24,253</u>	<u>\$ 437,790</u>	<u>\$ -</u>	<u>\$ 462,043</u>
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>				

**BUILDING INDUSTRY ASSOCIATION OF WASHINGTON AND SUBSIDIARY  
CONSOLIDATING STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2014**

	Building Industry Association of Washington	Member Services Corporation	Eliminations	Total
<b>REVENUES</b>				
R.O.I.I. program administrative fees	\$ -	\$ 1,242,000	\$ -	\$ 1,242,000
Retrospective rating program	-	1,768,947	-	1,768,947
Retrospective rating enrollment fees	-	779,774	-	779,774
Membership dues	696,250	-	-	696,250
Health insurance program fees	530,111	-	-	530,111
Education program fees	199,966	-	-	199,966
Miscellaneous	79,207	61,813	(69,750)	71,270
<b>Total revenues</b>	<b>1,505,534</b>	<b>3,852,534</b>	<b>(69,750)</b>	<b>5,288,318</b>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	429,148	1,769,826	-	2,198,974
Independent contractor	181,079	340,220	-	521,299
Miscellaneous	184,986	531,986	-	716,972
Education program	176,356	-	-	176,356
Accounting and legal	17,830	261,575	-	279,405
Advertising and promotion	75,375	94,699	-	170,074
Maintenance	50,203	111,822	-	162,025
Depreciation	-	58,153	-	58,153
<b>Total operating expenses</b>	<b>1,114,977</b>	<b>3,168,281</b>	<b>-</b>	<b>4,283,258</b>
<b>INCOME FROM OPERATIONS</b>	<b>390,557</b>	<b>684,253</b>	<b>(69,750)</b>	<b>1,005,060</b>
<b>OTHER INCOME (EXPENSE)</b>				
Realized gain on investments	1,701	-	-	1,701
Investment interest and dividends	17,192	2,356	-	19,548
Interest expense	-	(69,750)	69,750	-
Unrealized gain on investments	44,572	-	-	44,572
<b>Total other income (expense), net</b>	<b>63,465</b>	<b>(67,394)</b>	<b>69,750</b>	<b>65,821</b>
<b>INCOME BEFORE FEDERAL INCOME TAXES</b>	<b>454,022</b>	<b>616,859</b>	<b>-</b>	<b>1,070,881</b>
<b>FEDERAL INCOME TAX EXPENSE</b>				
Current	-	-	-	-
Deferred	-	(286,535)	-	(286,535)
<b>Total federal income tax expense</b>	<b>-</b>	<b>(286,535)</b>	<b>-</b>	<b>(286,535)</b>
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	<b>\$ 454,022</b>	<b>\$ 330,324</b>	<b>\$ -</b>	<b>\$ 784,346</b>