

# **Pacific Tower Condominium Association**

## **Audit Report Financial Statements & Supplementary Information December 31, 2016**

**Cagianut & Company**  
**CERTIFIED PUBLIC ACCOUNTANT**  
[www.hoacpa.com](http://www.hoacpa.com)

Members - Community Associations Institute—Washington State  
Washington Society of Certified Public Accountants  
American Institute of Certified Public Accountants

## *Independent Auditors' Report*

To the Board of Directors and Members  
Pacific Tower Condominium Association  
Tacoma, Washington

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Pacific Tower Condominium Association, which comprise the Balance Sheet as of December 31, 2016, and the related Statement of Changes in Fund Balances, Statement of Revenues and Expenses and Statement of Cash Flows for the year then ended and the related notes to the financial statements.

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

The Association is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pacific Tower Condominium Association as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matter - Required Supplementary Information**

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future repairs and replacements are adequate to meet such future costs because that determination is outside the scope of our audit.

Accounting principles generally accepted in the United States of America [GAAP] require that the Supplementary Information on Future Major Repairs be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting and for placing the basic financial statements and related notes in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Cagianut & Company, CPA*

Bellevue, Washington

March 7, 2017

**Pacific Tower Condominium Association**

Balance Sheet  
December 31, 2016

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash, including interest bearing deposits	\$ 119,438	\$ 369,052	\$ 488,490
Investments		345,609	345,609
Assessments Receivable	11,179		11,179
Less: Allowance for Bad Debts	(4,814)		(4,814)
Prepaid Insurance	21,390		21,390
Deposits		3,000	3,000
Fixed Assets	5,426		5,426
Less: Accumulated Depreciation	(4,883)		(4,883)
Due Between Funds	(710)	710	
<b>TOTAL ASSETS</b>	<u>\$ 147,024</u>	<u>\$ 718,371</u>	<u>\$ 865,396</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ 14,572		\$ 14,572
Assessments Received in Advance	11,157		11,157
Special Assessments Received in Advance	13,935		13,935
Income Taxes Payable	246		246
<b>TOTAL LIABILITIES</b>	<u>39,911</u>		<u>39,911</u>
 <b>FUND BALANCES</b>			
Operating	107,114		107,114
Replacement		\$ 718,371	\$ 718,371
<b>TOTAL FUND BALANCES</b>	<u>107,114</u>	<u>718,371</u>	<u>825,485</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 147,024</u>	<u>\$ 718,371</u>	<u>\$ 865,396</u>

See Notes to the Financial Statements

**Pacific Tower Condominium Association**  
Statement of Changes in Fund Balances  
For the Year Ended December 31, 2016

	OPERATING FUND	REPLACEMENT FUND	TOTAL
Balance at the Beginning of the Year	\$ 92,705	\$ 620,294	\$ 712,999
Excess <Deficiency> of Revenues over Expenses	14,408	98,077	112,486
Balance at the End of the Year	\$ 107,114	\$ 718,371	\$ 825,485

See Notes to the Financial Statements

**Pacific Tower Condominium Association**  
Statement of Revenues and Expenses  
For the Year Ended December 31, 2016

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>REVENUES</b>			
Assessments	\$ 314,943	\$ 135,360	\$ 450,303
Late Fees/Fines/Keys	1,651		1,651
Move In/Out Fees	5,100		5,100
Interest		2,799	2,799
Miscellaneous	2,332		2,332
<b>TOTAL REVENUES</b>	<b>324,026</b>	<b>138,159</b>	<b>462,185</b>
<b>EXPENSES</b>			
Audit & Tax Preparation	2,500		2,500
Bad Debts	1,103		1,103
Depreciation	1,085		1,085
Electricity	31,205		31,205
Elevator	31,882		31,882
Federal Taxes	666		666
HVAC	3,464		3,464
Insurance	23,191		23,191
Janitorial	54,324		54,324
Landscape	2,734		2,734
Life Safety Systems	19,047		19,047
Management	26,796		26,796
Miscellaneous	1,174		1,174
Moving Supervision	2,250		2,250
Office Supplies	3,868		3,868
Parking Monitoring	3,600		3,600
Pest Control	1,205		1,205
Repairs & Maintenance	32,536		32,536
Reserve Study	1,313		1,313
Telephone	1,923		1,923
Trash	8,165		8,165
Water & Sewer	55,584		55,584
Replacement Fund Expenses			
Access/Security		999	999
Decks		2,267	2,267
Fitness Equipment		5,784	5,784
Garage		2,939	2,939
HVAC		13,900	13,900
Retaining Wall		10,178	10,178
Windows		4,015	4,015
<b>TOTAL EXPENSES</b>	<b>309,618</b>	<b>40,082</b>	<b>349,700</b>
<b>EXCESS &lt;DEFICIENCY&gt; OF REVENUES OVER EXPENSES</b>	<b>\$ 14,408</b>	<b>\$ 98,077</b>	<b>\$ 112,486</b>

See Notes to the Financial Statements

**Pacific Tower Condominium Association**  
Statement of Cash Flows  
For the Year Ended December 31, 2016

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<i>Cash Flows from Operating Activities:</i>			
Cash from Assessments	\$ 331,980	\$ 135,360	\$ 467,340
Interest Received		2,799	2,799
Miscellaneous Income	9,083		9,083
Income Taxes Paid	(293)		(293)
Cash Paid for Services and Products	(318,642)	(44,527)	(363,170)
Net Increase <Decrease> in Cash from Operating Activities	22,127	93,632	115,759
<i>Cash Flows from Investing Activities:</i>			
Purchase of Investments		(2,657)	(2,657)
<i>Cash Flows from Financing Activities:</i>			
Change in Due Between Funds	710	(710)	
Net Increase <Decrease> in Cash	22,837	90,264	113,101
Cash, including interest bearing deposits, at the Beginning of Year	96,600	278,787	375,388
Cash, including interest bearing deposits, at the End of Year	<u>\$ 119,438</u>	<u>\$ 369,052</u>	<u>\$ 488,490</u>

Reconciliation of Excess <Deficiency> of Revenues over Expenses to Net Cash Received by Operations:

Excess <Deficiency> of Revenues over Expenses	\$ 14,408	\$ 98,077	\$ 112,486
Decreased Assessments Receivable	14,200		14,200
Decreased Bad Debt Allowance	(8,224)		(8,224)
Increased Prepaid Insurance	(16,930)		(16,930)
Decreased Prepaid Taxes	129		129
Decreased Deposits		(3,000)	(3,000)
Adjusted for Depreciation	1,085		1,085
Changed Accounts Payable	441	(1,445)	(1,004)
Increased Prepaid Assessments	2,836		2,836
Increased Taxes Payable	246		246
Increased Special Assessments Received in Advance	13,935		13,935
Net Increase <Decrease> in Operating Cash	<u>\$ 22,127</u>	<u>\$ 93,632</u>	<u>\$ 115,759</u>

See Notes to the Financial Statements

## Pacific Tower Condominium Association

Notes to the Financial Statements  
December 31, 2016

### NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### General

Pacific Tower Condominium Association was incorporated July 22, 2003 in the state of Washington as a nonprofit corporation. The Association is responsible for the operation and maintenance of the common property. This is a 94-unit condominium development located in Tacoma, Washington. In addition, there is a separate Garage Facility containing 22 garage spaces and 15 uncovered parking spaces. The garage and parking spaces were sold separately and were assigned as limited common elements.

#### Accounting Method

The Association prepares its statements on the accrual basis of accounting whereby income and expenses are recognized when earned and incurred. Fund accounting is employed to properly account for the monies. The Operating Fund is used to pay for all utility, insurance, general maintenance, landscaping, and administrative obligations of the Association. The Replacement Fund has been established to meet the replacement and major repair obligations of the Association with regard to the common area components.

#### Capitalization Policy

Replacements and improvements to the real property are not capitalized on the books of the Association as title is held by the members as a fractional interest as tenants in common. Property and equipment acquired by the Association are recorded at cost. The property is depreciated over its estimated useful lives using the straight line method of depreciation.

#### Assessments Receivable

Association members are subject to assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's Declaration provides for various collection remedies for delinquent assessments including the filing of liens, foreclosing on the unit owner, and obtaining judgment on the assets of the unit owner. The Association uses the allowance method to account for uncollectible assessments receivable.

#### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash, including Interest Bearing Deposits

For purposes of the statement of cash flows, Cash, including Interest Bearing Deposits, includes cash on hand, funds on deposit with financial institutions, and investments with original maturities of three months or less.

#### Fair Value Measurements

The three levels of the fair value hierarchy under ASC 820, Fair Value Measurements and Disclosures, are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

#### Investments

Investments include certificates of deposit with original maturities over 90 days. These are level one type investments.

#### Date of Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through the date of the audit report, which is the date that the financial statements were issued or



## Pacific Tower Condominium Association

Notes to the Financial Statements  
December 31, 2016

### NOTE 2 - REPLACEMENT FUNDING PROGRAM

The Association is currently funding for the future major repair and replacement of Association common areas as disclosed in Note 1. Accumulated funds are held in separate accounts and are generally not available for operating purposes. The funding is based upon a professional reserve study approved by the Board of Directors.

There were significant changes between the Required Supplementary Information presented in the prior audit and in the current audit. The Association had an updated reserve study prepared and it was determined that reserve component asset remaining lives and replacement costs required revision. Two of the most significant changes were: 1) adding sliding glass doors replacement as a component, and 2) a significant decrease in replacement cost of the window/glass doors. These changes have been approved by the Board of Directors.

Funds are being accumulated in the Replacement Fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and variations may be material. Therefore, the amounts accumulated in the Replacement Fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to certain legal limitations, to increase assessments, pass special assessments, or delay replacement if these funds are found to be inadequate for all future costs.

### NOTE 3 - FEDERAL INCOME TAXES

Associations may be taxed either as homeowners associations or as regular corporations. For the current year the Association elected to file as a homeowners association using form 1120-H under Internal Revenue Code Section 528. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance and care of Association property. Net nonexempt function income which includes interest, user fees and revenues from non-members is taxed at 30%. Certain expenses were allocated to offset a portion of the taxable income.

The Association's federal tax return is subject to audit by the Internal Revenue Service. The tax returns for the current and prior two fiscal years remain open for examination by the IRS. In evaluating the Association's tax positions and accruals, the Association believes that its estimates are appropriate based on the current facts and circumstances.

### NOTE 4 - OWNERS' ASSESSMENTS

Monthly assessments to owners varied by unit. Of this amount, a portion was designated to the Replacement Fund.

The annual budget and owners' assessments are determined by the Board of Directors, within certain restrictions. The Association retains excess operating funds at the end of the year, if any, for use in future operating periods.

### NOTE 5 - SUBSEQUENT EVENT/SPECIAL ASSESSMENT

The Board approved a \$200,000 special assessment at the September 19, 2016 meeting. The owners will be assessed based on their allocated percentage. Payment can be made in total by January 31, 2017, or over 30 months starting in January, 2017. The funds will be deposited into the Replacement Fund and used for the unforeseen and unbudgeted costs to repair the northwest wall on the condominium property. As of December 31, 2016, seven unit owners have paid the special assessment in full.

### NOTE 6 - UNINSURED CASH BALANCES

The Association's cash deposits are with various financial institutions. All accounts in one financial institution are combined and the maximum FDIC insurance amount per bank is \$250,000. At the end of the year, bank balances exceeded the FDIC limitation by almost \$154,000.

**Pacific Tower Condominium Association**  
December 31, 2016  
Supplementary Information on Future Major Repairs  
and Replacements  
(Unaudited)

*A level III reserve study was prepared by Cedcore, LLC for the period January 1, 2017 to December 31, 2017 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on current estimated replacement costs. Funding requirements consider an annual inflation rate of 1.37% and interest of 1.00%, net of taxes, on amounts funded for future major repairs and replacements. The following table is based on the study and presents significant information about the components of common property.*

Component	Estimated Remaining Useful Life in Years	Estimated Current Replacement Costs	Fund Balance at Year End
Garage Roof: Low Slope, Replace	5	\$ 70,216	
Garage Siding: Repaint	3	6,480	
Garage Siding: Replacement	20	43,416	
Asphalt: Resurface	14	108,688	
Asphalt: Seal	1	9,999	
Building Cleaning	1	21,000	
Building Inspections	13	13,000	
Concrete: Repairs	1	2,000	
Deck: Elastomeric, Reseal	3	140,954	
Elevator Cab: Refurbish	4	45,000	
Elevator Stress Test	3	5,500	
Elevator: Modernization	15	525,000	
Emergency Generator	9	25,000	
Exterior Resealing	11	91,125	
Fence, Metal: Replace	28	165,440	
Fire Panel: Replacement	5	90,000	
Fire Pump: Replacement	15	15,500	
Fire Suppression System: Replace O/S	6	30,000	
Fitness Equipment: Elliptical, Replace	6	2,900	
Fitness Equipment: T100, Replace	2	2,300	
Fitness Equipment: T900, Replace	7	3,300	
Flooring: Carpet, Replace	7	158,690	
Garage Door Commercial: Replace	5	8,000	
Garage Floor Sealer	2	4,750	
Handrail, Guardrail, Fence, Parking Screen, Metal: Repaint	7	13,000	
Handrail: Replace	28	10,720	
HVAC: Replace	2	11,625	
Lights Interior: Replace	15	20,000	
Lights Exterior, Replace	13	9,400	
Lobby Flooring: Replacement	15	29,750	
Lobby Refurbishment	6	3,000	
Mailbox Individual: Replace	15	9,400	
Plumbing System	25	34,000	
Roof, Red Metal: Replace	20	76,950	
Roof: Low Slope, Repair	2	6,000	
Roof: Low Slope, Replace	4	318,867	
Security Entry/Intercom Key Card Readers	8	9,000	
Security System: Refurbish	6	24,000	
Siding, Metal: Repair/Replace	37	1,128,000	
Sliding Glass Doors: Replace	37	188,000	
Stairwells: Repainting	7	25,800	
Stucco Repainting	1	19,092	
Trash Compactor	18	30,000	
Unit 107 - Refurbish	6	5,000	
Ventilation Fans	5	11,300	
Walls: Interior, Repainting	7	62,500	
Water Pump Controller Replacement	13	4,000	
Water Pump Replacement	13	9,000	
Windows: Replace	37	213,350	
<b>TOTAL</b>			<b>\$ <u>718,371</u></b>

Percent Funded as of January 1, 2017 - 45.0%