

# **Pacific Tower Condominium Association**

## **Audit Report Financial Statements & Supplementary Information December 31, 2017**

**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, 2017, 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 Towers Condominium Association as of December 31, 2017, 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, 2018

**Pacific Tower Condominium Association**

Balance Sheet  
December 31, 2017

	OPERATING FUND	REPLACEMENT FUND	SPECIAL ASSESSMENT FUND	TOTAL
<b>ASSETS</b>				
Cash, including interest bearing deposits	\$ 104,373	\$ 407,131	\$ 129,592	\$ 641,096
Investments		448,452		448,452
Special Assessments Receivable			3,545	3,545
Assessments Receivable	11,038			11,038
Less: Allowance for Bad Debts	(4,814)			(4,814)
Prepaid Insurance	10,935			10,935
Fixed Assets	5,426			5,426
Less: Accumulated Depreciation	(4,883)			(4,883)
Due Between Funds	(7,770)	(1,269)	9,039	0
<b>TOTAL ASSETS</b>	<b>\$ 114,305</b>	<b>\$ 854,314</b>	<b>\$ 142,176</b>	<b>\$ 1,110,795</b>
 <b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 22,105		\$ 88	\$ 22,193
Assessments Received in Advance	12,101			12,101
Income Taxes Payable	752			752
<b>TOTAL LIABILITIES</b>	<b>34,957</b>		<b>88</b>	<b>35,045</b>
 <b>FUND BALANCES</b>				
Operating	79,347			79,347
Replacement		\$ 854,314		854,314
Special Assessment			\$ 142,088	142,088
<b>TOTAL FUND BALANCES</b>	<b>79,347</b>	<b>854,314</b>	<b>142,088</b>	<b>1,075,750</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 114,305</b>	<b>\$ 854,314</b>	<b>\$ 142,176</b>	<b>\$ 1,110,795</b>

See Notes to the Financial Statements

**Pacific Tower Condominium Association**

Statement of Changes in Fund Balances  
For the Year Ended December 31, 2017

	OPERATING FUND	REPLACEMENT FUND	SPECIAL ASSESSMENT FUND	TOTAL
Balance at the Beginning of the Year	\$ 107,114	\$ 718,371	\$ 0	\$ 825,485
Transfer Between Funds		10,178	(10,178)	
Excess <Deficiency> of Revenues over Expenses	(27,767)	125,765	152,266	250,265
Balance at the End of the Year	<u>\$ 79,347</u>	<u>\$ 854,314</u>	<u>\$ 142,088</u>	<u>\$ 1,075,750</u>

See Notes to the Financial Statements

## Pacific Tower Condominium Association

Statement of Revenues and Expenses  
For the Year Ended December 31, 2017

	OPERATING FUND	REPLACEMENT FUND	SPECIAL ASSESSMENT FUND	TOTAL
<b>REVENUES</b>				
Assessments	\$ 291,132	\$ 156,360		\$ 447,492
Special Assessments			\$ 178,166	178,166
Late Fees/NSF	2,480			2,480
Move In/Out Fees	7,800			7,800
Interest		2,958	161	3,119
Special Assessment Door Fee	3,381			3,381
Miscellaneous	1,615			1,615
<b>TOTAL REVENUES</b>	<b>306,408</b>	<b>159,318</b>	<b>178,327</b>	<b>644,053</b>
<b>EXPENSES</b>				
Audit & Tax Preparation	2,400			2,400
Electricity	34,308			34,308
Elevator	30,390			30,390
Federal Taxes	753			753
HVAC	2,317			2,317
Insurance	23,082			23,082
Janitorial	8,373			8,373
Landscape	1,762			1,762
Life Safety Systems	29,777			29,777
Management	27,432			27,432
Miscellaneous	2,393			2,393
Moving Supervision	6,000			6,000
Office Supplies	4,153			4,153
Parking Monitoring	3,000			3,000
Pest Control	1,590			1,590
Repairs & Maintenance	75,569			75,569
Special Assessment Door Fee	2,919			2,919
Tax & License & Permits	7,161			7,161
Telephone	2,133			2,133
Trash	10,149			10,149
Water & Sewer	58,516			58,516
Replacement Fund Expenses				
Asphalt		4,211		4,211
Elevators		1,899		1,899
Garages		4,674		4,674
Lobby Rehab		6,286		6,286
Maintenance		11,855		11,855
Roof Repairs - Garage		3,358		3,358
Window Repair		1,269		1,269
Special Assessment Expenses				
Retaining Wall			26,061	26,061
<b>TOTAL EXPENSES</b>	<b>334,174</b>	<b>33,553</b>	<b>26,061</b>	<b>393,788</b>
<b>EXCESS &lt;DEFICIENCY&gt; OF REVENUES OVER EXPENSES</b>	<b>\$ (27,767)</b>	<b>\$ 125,765</b>	<b>\$ 152,266</b>	<b>\$ 250,265</b>

See Notes to the Financial Statements

**Pacific Tower Condominium Association**  
Statement of Cash Flows  
For the Year Ended December 31, 2017

	OPERATING FUND	REPLACEMENT FUND	SPECIAL ASSESSMENT FUND	TOTAL
<i>Cash Flows from Operating Activities:</i>				
Cash from Assessments	\$ 292,216	\$ 156,360		\$ 448,576
Cash from Special Assessments			\$ 174,621	174,621
Interest Received		2,958	161	3,119
Miscellaneous Income	15,276			15,276
Income Taxes Paid	(246)			(246)
Cash Paid for Services/Products	(329,370)	(30,553)	(25,973)	(385,896)
Net Increase <Decrease> in Cash from Operating Activities	(22,124)	128,765	148,809	255,449
<i>Cash Flows from Investing Activities:</i>				
Purchase of Investments		(321,515)		(321,515)
Sale of Investments		218,672		218,672
<i>Cash Flows from Financing Activities:</i>				
Transfers Between Funds		10,178	(10,178)	
Change in Due Between Funds	7,059	1,979	(9,039)	
Net Increase <Decrease> in Cash	(15,065)	38,079	129,592	152,607
Cash, including interest bearing deposits, at the Beginning of Year	119,438	369,052		488,490
Cash, including interest bearing deposits, at the End of Year	<u>\$ 104,373</u>	<u>\$ 407,131</u>	<u>\$ 129,592</u>	<u>\$ 641,096</u>

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

Excess <Deficiency> of				
Revenues over Expenses	\$ (27,767)	\$ 125,765	\$ 152,266	\$ 250,265
Increased Special Assessments Receivable			(3,545)	(3,545)
Decreased Assessments Receivable	141			141
Decreased Prepaid Insurance	10,454			10,454
Decreased Deposits		3,000		3,000
Increased Accounts Payable	7,532		88	7,620
Increased Prepaid Assessments	943			943
Increased Taxes Payable	506			506
Decreased Special Assessments Received in Advance	(13,935)			(13,935)
Net Increase<Decrease>in Operating Cash	<u>\$ (22,124)</u>	<u>\$ 128,765</u>	<u>\$ 148,809</u>	<u>\$ 255,449</u>

## Pacific Tower Condominium Association

Notes to the Financial Statements  
December 31, 2017

### 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. The Special Assessment Fund has been established to account for the income and expenses as defined further in Note 5.

#### 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, which approximates the net realizable value.

#### 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 available to be issued.



## Pacific Tower Condominium Association

Notes to the Financial Statement  
December 31, 2017

### 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.

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 - 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 - SPECIAL ASSESSMENTS

The Board approved a \$200,000 special assessment at their September 19, 2016 meeting. The owners are assessed based on their allocated percentage. Payment could be made in total by January 31, 2017, or over 30 months starting in January, 2017.

A second \$200,000 special assessment was approved at the July 20, 2017 meeting. The owners are assessed based on their allocated percentage. Payment could be made in total by September 30, 2017, or over 21 months starting in October, 2017.

The funds from both special assessments are deposited into the Special Assessment Fund and used for further unforeseen and unbudgeted costs to repair the Northwest retaining wall on the condominium property.

As of December 31, 2017, 67 owners were making payments on the first special assessment and 74 owners were making payments on the second special assessment.

**Pacific Tower Condominium Association**  
December 31, 2017  
Supplementary Information on Future Major Repairs  
and Replacements  
(Unaudited)

*A level III reserve study was prepared by Cedcore, LLC for the period January 1, 2018 to December 31, 2018 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 2.50% 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	4	\$ 72,050	
Garage Siding: Repaint	2	6,480	
Garage Siding: Replacement	19	44,550	
Asphalt: Resurface	13	108,688	
Asphalt: Seal	0	10,869	
Building Cleaning	0	21,500	
Building Inspections	12	13,300	
Deck: Elastomeric, Reseal	2	144,232	
Elevator Cab: Refurbish	3	46,200	
Elevator Stress Test	2	5,600	
Elevator: Modernization	14	540,000	
Emergency Generator	8	25,600	
Exterior Resealing	10	93,960	
Fence, Metal: Replace	27	165,440	
Fire Panel: Replacement	4	92,250	
Fire Pump: Replacement	14	15,900	
Fire Suppression System: Replace O/S	5	30,750	
Fitness Equipment: Elliptical, Replace	5	3,000	
Fitness Equipment: PS900, Replace	6	3,400	
Fitness Equipment: T100, Replace	1	3,400	
Flooring: Carpet, Replace	6	163,224	
Garage Door Commercial: Replace	4	8,200	
Garage Floor Sealer	1	4,900	
Handrail, Guardrail, Fence, Parking Screen, Metal: Repaint	6	13,300	
Handrail: Replace	27	10,960	
HVAC: Replacement	1	12,000	
Lights Interior: Replace	14	20,000	
Lights Exterior, Replace	12	9,400	
Lobby Flooring: Replacement	14	29,750	
Lobby Refurbishment	5	9,000	
Mailbox Individual: Replace	14	9,400	
Plumbing System	24	35,000	
Roof, Red Metal: Replace	19	78,945	
Roof: Low Slope, Repair	1	6,200	
Roof: Low Slope, Replace	3	326,282	
Security Entry/Intercom Key Card Readers	7	9,200	
Security System: Refurbish	5	24,600	
Siding, Metal: Repair/Replace	36	1,156,200	
Sliding Glass Doors: Replace	36	192,700	
Stairwells: Repainting	6	26,875	
Stucco Repainting	0	19,610	
Trash Compactor	17	30,750	
Unit 107 - Refurbish	5	5,200	
Ventilation Fans	4	11,600	
Walls: Interior, Repainting	6	65,000	
Water Pump Controller Replacement	12	4,100	
Water Pump Replacement	12	9,200	
Windows: Replace	36	219,625	
<b>TOTAL</b>			<b>\$ <u>854,314</u></b>

Percent Funded as of January 1, 2018 - 48.0%