

**Pacific Tower Condominium Association  
Financial Statements  
For the Year Ended December 31, 2019**



**NEWMAN**  
Certified Public Accountant, PC

**Pacific Tower Condominium Association  
Financial Statements  
For the Year Ended December 31, 2019**

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### Independent Auditor's Report

To the Board of Directors of Pacific Tower Condominium Association

We have audited the accompanying financial statements of Pacific Tower Condominium Association (the "Association") which comprise the balance sheet as of December 31, 2019, and the related statements of revenues, expenses, and changes in fund balance and cash flows 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 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 from material misstatement.

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

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

#### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pacific Tower Condominium Association as of December 31, 2019, and 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.

#### **Emphasis of a Matter on Future Major Repairs and Replacements**

Our audit was made for the purpose of forming an opinion on the basic financial statement, taken as a whole. We have not applied procedures to determine whether the funds designated for future repairs and replacements as discussed in Note 4 are adequate to meet such future costs, because such determination is outside the scope of our audit. Our opinion is not modified with respect to this matter.

#### **Disclaimer of Opinion of Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that Supplementary Information on Future Repairs and Replacements 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 for placing the basic financial statements in an appropriate operational, economic or historical context. We 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.

*Newman Certified Public Accountant, PC.*

Newman Certified Public Accountant, PC  
Bellevue, Washington  
June 30, 2020

**Pacific Tower Condominium Association**  
**Balance Sheet**  
**December 31, 2019**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Special Assessment Fund</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 148,496	\$ 149,310	\$ -	\$ 297,806
Investments		916,543		916,543
Assessments receivable	8,927			8,927
Special assessments receivable	667			667
Allowance for doubtful accounts	(4,158)			(4,158)
Interest receivable		1,194		1,194
Prepaid insurance	12,506			12,506
Fixed assets	5,426			5,426
Accumulated depreciation	(5,426)			(5,426)
<b>Total assets</b>	<u>\$ 166,438</u>	<u>\$ 1,067,047</u>	<u>\$ -</u>	<u>\$ 1,233,485</u>
<b>Liabilities</b>				
Accounts payable	\$ 23,504	\$ 1,131	\$ -	\$ 24,635
Prepaid assessments	16,529			16,529
Income taxes payable	2,274			2,274
Contract Liabilities (Assessments received in advance - replacement fund)		1,065,916		1,065,916
<b>Total liabilities</b>	<u>42,307</u>	<u>1,067,047</u>	<u>-</u>	<u>1,109,354</u>
<b>Fund balances</b>	<u>124,131</u>	<u>-</u>	<u>-</u>	<u>124,131</u>
<b>Total liabilities and fund balances</b>	<u>\$ 166,438</u>	<u>\$ 1,067,047</u>	<u>\$ -</u>	<u>\$ 1,233,485</u>

The accompanying notes are an integral part of the financial statements  
(See Independent Auditor's Report)

**Pacific Tower Condominium Association**  
**Statement of Revenue and Expenses and Changes in Fund Balances**  
**For the Year Ended December 31, 2019**

	Operating Fund	Replacement Fund	Special Assessment Fund	Total
<b>Revenues</b>				
Owners assessments	\$ 343,562	\$ 70,089	\$ -	\$ 413,651
Special assessments			63,138	63,138
Rental income	675			675
Insurance claim income	37,546			37,546
Move in/out fees	9,250			9,250
Late fees	1,800			1,800
Interest	143	8,578		8,721
Other member income	4,188			4,188
<b>Total revenues</b>	<u>397,164</u>	<u>78,667</u>	<u>63,138</u>	<u>538,969</u>
<b>Expenses</b>				
Utilities				
Electricity and gas	34,989			34,989
Water and sewer	65,481			65,481
Trash removal	11,567			11,567
Telephone	2,196			2,196
	<u>114,233</u>	<u>-</u>	<u>-</u>	<u>114,233</u>
Maintenance				
Common area repairs and maintenance	50,255	1,131		51,386
Building maintenance		21,238		21,238
Building access	53,982			53,982
Fire prevention	13,938	21,914		35,852
Elevator	33,047	10,430		43,477
Roof repair and maintenance		8,754		8,754
Pumping station		15,200		15,200
Insurance claim expenses	37,546			37,546
	<u>188,768</u>	<u>78,667</u>	<u>-</u>	<u>267,435</u>
Administrative				
Insurance	16,910			16,910
Management	29,300			29,300
Administrative expense	13,566			13,566
Depreciation expense	543			543
Legal and professional	4,502			4,502
Federal tax expense	2,299			2,299
Bad debt expense (recoveries)	3,822			3,822
	<u>70,942</u>	<u>-</u>	<u>-</u>	<u>70,942</u>
<b>Total expenses</b>	<u>373,943</u>	<u>78,667</u>	<u>-</u>	<u>452,610</u>
<b>Excess (deficit) of revenues over (under) expenses</b>	23,221	-	63,138	86,359
<b>Beginning fund balances</b>	93,627	-	(57,750)	35,877
Transfer to/from contract liabilities	-		(5,388)	(5,388)
Prior period adjustment	7,283			7,283
<b>Ending fund balances</b>	<u>\$ 124,131</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 124,131</u>

The accompanying notes are an integral part of the financial statements  
(See Independent Auditor's Report)

**Pacific Tower Condominium Association**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2019**

	Operating Fund	Replacement Fund	Special Assessment Fund	Total
<b>Excess (deficit) of revenues over (under) expenses</b>	\$ 23,221	\$ -	\$ 63,138	\$ 86,359
Adjustments to reconcile excess (deficit) of revenues over (under) expenses to net cash provided (used) by operating activities				
Depreciation	543			543
Decrease (Increase) in operating assets:				
Accounts receivable	(7,256)			(7,256)
Special assessments receivable	906			906
Allowance for doubtful accounts	3,658			3,658
Interest receivable		(1,194)		(1,194)
Prepaid insurance	(536)			(536)
Prepaid income tax	25			25
Increase (decrease) in operating liabilities:				
Accounts payable	15,924	(2,887)		13,037
Prepaid assessments	(4,818)			(4,818)
Income taxes payable	2,274			2,274
Contract liabilities (Assessments received in advance - replacement fund)		103,995		103,995
Prior period adjustment	7,283			7,283
Total adjustments	18,003	99,914	-	117,917
Net cash provided (used) by operating activities	41,224	99,914	63,138	204,276
Cash provided (used) by investing activities				
Change in investments		(339,423)		(339,423)
Net cash provided (used) by investing activities	-	(339,423)	-	(339,423)
Cash provided (used) by financing activities				
Transfer to/from contract liabilities	-		(5,388)	(5,388)
Interfund borrowings	-	57,750	(57,750)	-
Net cash provided (used) by financing activities	-	57,750	(63,138)	(5,388)
<b>Net increase (decrease) in cash and cash equivalents</b>	41,224	(181,759)	-	(140,535)
Beginning cash and cash equivalents	107,272	331,069	-	438,341
<b>Ending cash and cash equivalents</b>	148,496	\$ 149,310	\$ -	\$ 297,806
<b>SUPPLEMENTAL DISCLOSURE</b>				
Income taxes paid				\$ -
Interest paid				\$ -

The accompanying notes are an integral part of the financial statements  
(See Independent Auditor's Report)

**Pacific Tower Condominium Association**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2019**

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**1. Organization**

Pacific Tower Condominium Association (the "Association") was incorporated on July 22, 2003 as a nonprofit corporation under the laws of Washington, for the purposes of maintaining and preserving common property. The Association consists of 94 residential units and is located in Tacoma, Washington.

**2. Summary of Significant Accounting Policies**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the board of directors 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 significantly from those estimates.

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 - The fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund - The fund is used to accumulate financial resources designated for future major repairs and replacements.

Members Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on properties of homeowners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. After the Board of Directors has exhausted all efforts to collect delinquent accounts, the Board of Directors may elect to write off uncollectible balances.

The Association recorded an allowance for doubtful accounts of \$4,158 to reflect an estimate of accounts that may not be collectible, which includes accounts receivable greater than 90 days old.

Contract Liabilities (Assessments received in advance - replacement fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance - replacement fund) is recorded when the Association has the right to receive payment in advance of satisfaction of performance obligations related to replacement reserve assessments.

**Pacific Tower Condominium Association**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2019**

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Income Tax

The Association's policy is to record interest expense or penalties related to income tax in operating expenses.

Capital Assets and Depreciation Policy

The Association has not capitalized real and personal common area property contributed by the developer. Replacements and improvements to real property are also not capitalized; rather, they are charged to the respective fund in the period the cost is incurred. Significant personal property assets are capitalized and depreciated over their estimated lives using straight-line depreciation.

Cash and Cash Equivalents

Cash and cash equivalents include the Association's cash, checking accounts, money market funds and investments in certificates of deposit with original maturities of 90 days or less.

Investments

Investments consist of certificates of deposit and other securities and investment accounts with original maturities of more than 90 days.

Subsequent Events

Subsequent events have been evaluated through June 30, 2020, which is the date the financial statements were available to be issued.

Concentration of Credit Risk

The Association maintains bank accounts with balances that exceed FDIC federal insurance of \$250,000. The financial institution may carry private insurance, which may or may not be sufficient to reimburse for any losses. At December 31, 2019, \$289,983 was exposed to risk.

**3. Future Major Repairs and Replacements**

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate bank accounts and are generally not available for expenditures for normal operations.

The board of directors conducted a reserve study to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on this study.

The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to its governing documents, to increase regular assessments or to levy special assessments, or it may delay major repairs and replacements until funds are available.



**Pacific Tower Condominium Association**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2019**

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**4.FASB ASC 606 New Accounting Guidance Implementation**

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, Real Estate - Common Interest Realty Associations (CIRA), Revenue Recognition, and requires the recognition of revenue when promised goods and services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods and services.

The Association adopted the requirements of the new guidance as of January 01, 2019, using the modified retrospective method of transition, which requires the cumulative effect of the changes related to the adoption be charged to the beginning balance. The Association applied the new guidance using the practical expedient in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 01, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liabilities related to the replacement fund, as previously described.

The adoption of the new revenue recognition guidance resulted in the following change to the fund balance as of January 01, 2019:

Fund balance, as previously reported, January 01, 2019	\$	997,798
Adjustment		<u>(961,921)</u>
Fund balance, as adjusted, January 01, 2019	\$	<u><u>35,877</u></u>

The effect of the adoption is a decrease in December 31, 2019 replacement fund assessments and a recording of a contract liability (assessments received in advance - replacement fund) at The Association has no customer contract modifications that had an effect on the Association's transition to the new guidance.

The modified retrospective method requires us to disclose the effect of applying the new guidance on each item included in our December 31, 2019 financial statements. Following are the line items from our balance sheet as of December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance:

	<u>Amounts that would have been reported</u>	<u>Effects of applying new guidance</u>	<u>As reported</u>
<b>Liabilities:</b>			
Contract liabilities (Assessments received in advance - replacement reserve)	\$ -	\$ 1,065,916	\$ 1,065,916
Total liabilities	-	1,065,916	1,065,916
<b>Fund Balance:</b>			
Ending fund balance	\$ 1,190,047	\$ (1,065,916)	\$ 124,131

**Pacific Tower Condominium Association**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2019**

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The following are the line items from the statement of revenues, expenses, and changes in fund balances and the statement of cash flows for the year ended December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the amounts reported under the new guidance:

	<u>Amounts that would have been reported</u>	<u>Effects of applying new guidance</u>	<u>As reported</u>
Revenue:			
Regular assessments	\$ 510,249	\$ (96,598)	\$ 413,651
Excess of revenues over expenses	\$ 182,957	\$ (96,598)	\$ 86,359
Cash Flows:			
Excess of revenues over expenses	\$ 182,957	\$ (96,598)	\$ 86,359
Increase in contract liabilities (Assessments received in advance -replacement reserves)	\$ -	\$ 96,598	\$ 96,598

#### **5. Income Taxes**

The Association elected to file its federal income tax returns as a homeowners association under Internal Revenue Code Section 528. The Association is generally taxed on income not related to membership dues and assessments, such as interest income and non-member income. The Internal Revenue Service can examine the Association's income tax returns generally up to three years.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Association and has concluded that as of the year end, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

#### **6. Special Assessment**

In 2017, the Board approved a \$200,000 special assessment to repair retaining wall on the condominium property. Each unit's share of the special assessment is based on their allocated percentage. Members have the options to make lump sum payment or 21 monthly payments. For the year end December 31, 2019, the Association recognized \$63,138 in special assessment.

#### **7. Prior Period Adjustment**

An adjustment has been record to account for expenses and owners' balances in the prior year. The correction has not effects on the result of current year's operation.

**Pacific Tower Condominium Association**  
**Supplementary Information on Future Major Repairs and Replacements**  
**December 31, 2019**  
**(Unaudited)**

The Association's board of directors, in conjunction with a reserve study expert, conducted a reserve study dated January 1, 2020 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair and replacement.

The following information is based on the study and presents significant information about the components of common property.

Study Component	Estimated remaining useful lives	Estimated current replacement costs
Garage	0-32	\$ 172,030
Asphalt	5-26	130,400
Building	6-10	37,100
Deck	0	157,000
Elevator	0-12	648,800
Exterior resealing and siding	8-34	1,373,000
Fence, wall, and handrail	4-25	280,100
Fire	3-17	165,400
Flooring	3-28	231,870
HVAC and plumbing	1-22	74,400
Lights	10-12	34,000
Mailbox	12	10,200
Roof	0-17	395,590
Security	0-5	31,100
Doors	34	210,000
Painting	1-4	121,600
Common area	0-15	98,250
Water pump	10-10	14,600
Windows	34	264,000
		<u>\$ 4,449,440</u>

See the Balance Sheet for replacement fund cash, cash equivalents and investments balances at December 31, 2019.