

**Big Trout Condominium Association
Financial Statements - Modified Cash Basis
For the Year Ended December 31, 2019**



NEWMAN
Certified Public Accountant, PC

**Big Trout 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 Big Trout Condominium Association

We have audited the accompanying financial statements of Big Trout Condominium Association (the "Association") which comprise the statement of assets, liabilities and fund balances - modified cash basis as of December 31, 2019, and the related statement of revenues, expenses, and changes in fund balances - modified cash basis, for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal controls 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.

Basis For Qualified Opinion

We were unable to obtain sufficient appropriate audit evidence regarding the existence or accuracy of fixed assets and accumulated depreciation with a net balance of \$100,326.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the statement of assets, liabilities, and fund balances - modified cash basis of Big Trout Condominium Association as of December 31, 2019, and its revenues, expenses and changes in fund balances - modified cash basis, for the year then ended, in accordance with the modified cash basis of accounting described in Note 2.

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.

Emphasis of a Matter - Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter. This means that receipts have been recorded as revenues and disbursements have been recorded as expenses.

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.

Big Trout Condominium Association
Statement of Assets, Liabilities and Fund Balances - Modified Cash Basis
December 31, 2019

	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalents	\$ 48,467	\$ 269,323	\$ 317,790
Investments		510,692	510,692
Fixed assets	256,917		256,917
Land	55,450		55,450
Accumulated depreciation	(212,041)		(212,041)
Due from (to) fund	4,038	(4,038)	-
Total assets	\$ 152,831	\$ 775,977	\$ 928,808
Liabilities			
Total liabilities	-	-	-
Fund balances	152,831	775,977	928,808
Total liabilities and fund balances	\$ 152,831	\$ 775,977	\$ 928,808

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

Big Trout Condominium Association
Statement of Revenues, Expenses and Changes in Fund Balances - Modified Cash Basis
For the Year Ended December 31, 2019

	Operating Fund	Replacement Fund	Total
Revenues			
Owners assessments	\$ 515,903	\$ 135,555	\$ 651,458
Late fees	1,563		1,563
Interest		12,739	12,739
Other member income	1,365		1,365
Total revenues	<u>518,831</u>	<u>148,294</u>	<u>667,125</u>
Expenses			
Utilities			
Electricity and gas	25,520		25,520
Water and sewer	100,840		100,840
Trash removal	64,703		64,703
Cable	117,689		117,689
Internet	18,803		18,803
	<u>327,555</u>	<u>-</u>	<u>327,555</u>
Maintenance			
Landscape and irrigation	41,176		41,176
Common area repairs and maintenance	12,044		12,044
Pool and spa	11,041		11,041
Pest control	969		969
Building maintenance and repair		82,202	82,202
Fitness facilities	4,391		4,391
Signage		302	302
Furnishings		3,736	3,736
Snow removal	11,012		11,012
	<u>80,633</u>	<u>86,240</u>	<u>166,873</u>
Administrative			
Insurance	45,870		45,870
Management	40,320		40,320
Administrative expense	2,766		2,766
Accounting services	200		200
Depreciation expense	16,365		16,365
Legal and professional	7,105		7,105
Community and social activities	18		18
Federal taxes	791		791
	<u>113,435</u>	<u>-</u>	<u>113,435</u>
Total expenses	<u>521,623</u>	<u>86,240</u>	<u>607,863</u>
Excess (deficit) of revenues over (under) expenses	(2,792)	62,054	59,262
Beginning fund balances	155,623	713,923	869,546
Ending fund balances	<u>\$ 152,831</u>	<u>\$ 775,977</u>	<u>\$ 928,808</u>

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

Big Trout Condominium Association
Notes to Financial Statements
For the Year Ended December 31, 2019

1. Organization

Big Trout Condominium Association (the "Association") was incorporated on May 4, 2007 as a nonprofit corporation under the laws of Washington, for the purposes of maintaining and preserving common property. The Association consists of 224 residential units and is located in Liberty Lake, Washington.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under the modified cash basis, transactions are recognized as either cash receipts or disbursements. The modified cash basis differs from generally accepted accounting principles primarily because the effects of outstanding dues, receivables, prepaid dues, and obligations unpaid at the date of the financial statements are not included on the statement of assets, liabilities, and fund balances.

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 uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the board of directors and property manager. Disbursements from the replacement fund generally may be made only for designated purposes.

Capital Assets and Depreciation Policy

The Association has capitalized some 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 October 06, 2020, which is the date the financial statements were available to be issued.

Big Trout Condominium Association
Notes to Financial Statements
For the Year Ended December 31, 2019

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, \$70,233 was exposed to risk.

3. Assessments and Assessments Receivable

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The Association's governing documents provide for various collection remedies for delinquent assessments and fees, including filing of liens on an owner's unit, foreclosing on a unit owner, and obtaining a legal judgment on an owner's other assets. Any excess operating funds are retained at the end of the fiscal year for use in future periods. After the Association has exhausted all efforts to collect delinquent accounts, the Board of Directors may elect to write off uncollectible balances.

4. 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.

5. 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 the 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.

Big Trout Condominium Association
Notes to Financial Statements
For the Year Ended December 31, 2019

6. Due From (To) Fund

The balance of the Due from (to) fund accounts at December 31, 2019 totaled \$4,038. The balance is comprised of replacement fund expenses paid by the operating fund.

7. Accounts Receivable and Prepaid Assessments

As of December 31, 2019, the Association's owners' assessments balance of \$651,458 includes \$22,169 of assessments that were prepaid by members for the 2020 fiscal year. Under Generally Accepted Accounting Principles, such prepaid assessments would have been presented as a liability and excluded from revenues. The Association's accounting records indicate that assessments receivable as of December 31, 2019 totaled \$42,710. Assessments receivable have not been included in revenues or presented on the Statement of Assets, Liabilities, and Fund Balances under the modified cash basis of accounting. Under the full accrual basis of accounting, \$42,710 of member income and accounts receivable would have been presented in these financial statements.

8. Fixed Assets

Fixed Assets consisted of the following:

Fitness equipment	\$ 4,342
Outdoor common areas	245,469
Equipment and fixtures	7,106
Accumulated Depreciation	<u>(212,041)</u>
Total	\$ 44,876

We were unable to obtain sufficient appropriate audit evidence regarding the existence or accuracy of fixed assets and accumulated depreciation.

Big Trout 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 August 5, 2017 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
Streets and drives	4-6	\$ 281,393
Roofs	6	612,854
Painting	2-7	167,502
Lighting	1-11	28,520
Buildings	21	668,835
Fitness pool house	0-11	34,420
Fencing	11	43,578
Grounds	1-6	32,500
Pools and spas	0-11	52,921
		<u>\$ 1,922,523</u>

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