

AMBASSADOR I CONDOMINIUM ASSOCIATION

INDEPENDENT AUDITOR'S REPORT

AND

AUDITED FINANCIAL STATEMENTS

FOR THE

YEAR ENDED MAY 31, 2018

AND

UNAUDITED SUPPLEMENTARY INFORMATION

AMBASSADOR I CONDOMINIUM ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
Ambassador I Condominium Association

We have audited the accompanying financial statements of Ambassador I Condominium Association, which comprise the balance sheet as of May 31, 2018, 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.

INDEPENDENT AUDITOR'S REPORT--Continued

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 Ambassador I Condominium Association as of May 31, 2018, and the results of its operations and its cash flows for year then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on common property on page 12 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 basic financial statements 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.

Joseph H. Vandal, CPA PS
Redmond, Washington

 *Joseph H. Vandal - CPA PS*
February 25, 2019

AMBASSADOR I CONDOMINIUM ASSOCIATION
BALANCE SHEET
May 31, 2018

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash-Checking	\$ 7,214	\$ -	\$ 7,214
Cash-Replacement Reserve	-	620,383	620,383
Assessments Receivable	805	66,739	67,544
Long Term SPA Receivable	-	941,973	941,973
Escrow Deposits	140	-	140
Prepaid Insurance	6,727	-	6,727
Unit 304	107,781	-	107,781
Accumulated Depreciation	<u>(65,811)</u>	<u>-</u>	<u>(65,811)</u>
 Total Assets	 <u>\$ 56,856</u>	 <u>\$ 1,629,095</u>	 <u>\$ 1,685,951</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
Accounts Payable	\$ 7,702	\$ 152,425	\$ 160,127
Payroll Taxes Payable	3,309	-	3,309
Damage Deposits	2,955	-	2,955
Mortgage on Unit #304	54,283	-	54,283
Loan Payable	-	260,000	260,000
Prepaid Assessments	<u>4,623</u>	<u>-</u>	<u>4,623</u>
 Total Liabilities	 72,872	 412,425	 485,297
 Fund Balance	 <u>(16,016)</u>	 <u>1,216,670</u>	 <u>1,200,654</u>
 Total Liabilities & Fund Balance	 <u>\$ 56,856</u>	 <u>\$ 1,629,095</u>	 <u>\$ 1,685,951</u>

AMBASSADOR I CONDOMINIUM ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND BALANCE
For the Year Ended May 31, 2018

	OPERATING FUND	REPLACEMENT RESERVE FUND	TOTAL
REVENUES			
Assessments			
Regular	\$ 165,985	\$ 81,984	\$ 247,969
Special	-	1,678,000	1,678,000
Rental Income #204	10,100	-	10,100
Other	7,199	-	7,199
SPA Homeowner Interest	-	32,619	32,619
Interest	20	4,619	4,639
TOTAL REVENUE	183,304	1,797,222	1,980,526
EXPENSES			
Accounting Services	10,525	-	10,525
Office Expense	2,154	-	2,154
Audit	1,095	-	1,095
Legal	1,750	-	1,750
Real Estate Taxes	2,885	-	2,885
Insurance	48,805	-	48,805
Payroll-Maintenance	30,580	-	30,580
Repairs and Maintenance	26,496	-	26,496
Rental Expense	6,394	-	6,394
Landscaping	2,198	-	2,198
Utilities	48,183	-	48,183
Depreciation	3,919	-	3,919
Interest -Unit #304	2,370	-	2,370
Loan Interest Expense	-	1,528	1,528
Major Repairs and Replacements	-	1,031,098	1,031,098
TOTAL EXPENSES	187,354	1,032,626	1,219,980
REVENUES OVER/(UNDER) EXPENSES	(4,050)	764,596	760,546
BEGINNING FUND BALANCE	(16,179)	456,287	440,108
Transfer to (from)	4,213	(4,213)	-
ENDING BALANCE	\$ (16,016)	\$ 1,216,670	\$ 1,200,654

AMBASSADOR I CONDOMINIUM ASSOCIATION
STATEMENT OF CASH FLOWS
For the Year Ended May 31, 2018

	<u>OPERATING FUND</u>	<u>REPLACEMENT RESERVE FUND</u>	<u>TOTAL</u>
<u>CASH FLOWS FROM OPERATING</u>			
<u>ACTIVITIES</u>			
REVENUE OVER/(UNDER) EXPENSES	\$ (4,050)	\$ 764,596	\$ 760,546
Adjustments to reconcile excess of expenses over revenues to net cash provided by activities:			
Accumulated Depreciation	3,919	-	3,919
(Increase) Decrease in:			
Assessments Receivable	(805)	(66,739)	(67,544)
Long Term A/R SPA	-	(941,973)	(941,973)
Escrow Deposit	(29)	-	(29)
Prepaid Insurance	3,985	-	3,985
Increase (Decrease) in:			
Accounts Payable	(3,191)	152,425	149,234
Deposits	45	-	45
Payroll Taxes Payable	1,739	-	1,739
Prepaid Rent	(766)	-	(766)
Prepaid Assessments	(1,618)	-	(1,618)
	<u>(771)</u>	<u>(91,691)</u>	<u>(92,462)</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>			
<u>CASH FLOWS FROM</u>			
<u>FINANCING ACTIVITIES</u>			
Loan Proceeds/Debt Service	-	260,000	260,000
Mortgage Proceeds/Debt Service	(2,284)	-	(2,284)
Interfund transfers	4,213	(4,213)	-
	<u>1,929</u>	<u>255,787</u>	<u>257,716</u>
<u>NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES</u>			
NET INCREASE (DECREASE) IN CASH & EQUIVALENTS	1,158	164,096	165,254
CASH & EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>6,056</u>	<u>456,287</u>	<u>462,343</u>
CASH & EQUIVALENTS AT END OF THE PERIOD	<u>\$ 7,214</u>	<u>\$ 620,383</u>	<u>\$ 627,597</u>
<u>SUPPLEMENTAL DISCLOSURE</u>			
Interest Expense	<u>\$ 2,370</u>	<u>\$ 1,528</u>	<u>\$ 3,898</u>

AMBASSADOR I CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2018

NOTE A – NATURE OF ORGANIZATION

Ambassador I Condominium Association is a statutory condominium association in the State of Washington incorporated in 1991. The Association is responsible for the operation and maintenance of the common property of Ambassador I Condominium Association. Ambassador I Condominium Association consists of 48 residential units and 1 commercial unit located in Seattle, Washington.

NOTE B – DATE OF MANAGEMENT’S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 25, 2019, the date that the financial statements were available to be issued.

NOTE C-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Replacement Fund-This fund is used to accumulate financial resources designated for future major repairs and replacements, insurance proceeds (if any), insurance repairs (if any), and litigation costs (if any) relating to the afore mentioned proceeds.

Cash and Cash Equivalents

The Association considers cash on deposit, cash on hand, money market funds (if any) and certificates of deposit (if any) and any other highly-liquid securities to be cash and or cash equivalents. Any penalties for early withdrawal would not have a material effect on the financial statements.

AMBASSADOR I CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2018

NOTE C-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Member Assessments

Association members are subject to monthly 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 policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. If assessments are inadequate, the Board of Directors, subject to the limitations of their authority described in the Association's governing documents, May have to increase regular assessments or pass special assessments.

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by individual unit owners in common and not by the Association. The Association capitalizes personal property at cost and depreciates it using the straight-line method.

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.

NOTE D-COMMITMENTS

The Association has various contracts for services including but not limited to management, maintenance, and landscaping.

AMBASSADOR I CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2018

NOTE E-INCOME TAXES

Condominium associations may be taxed either as homeowners' associations or as regular corporations. In 2018, the Association elected to be taxed as a homeowners' association. Under that election, the Association is taxed on its nonexempt function income, such as net interest earnings, at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable.

As of May 31, 2018, the tax years that remain subject to examination by taxing authorities begin with 2014.

NOTE F-FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds (assets less liabilities as reported on the balance sheet), which in aggregate are approximately \$1,216,670 at May 31, 2018, are held in separate accounts and are generally not available for operating purposes. Cash balances shown on the balance sheet that are part of these funds are held in separate bank accounts.

The Association engaged a specialist who conducted a study in 2016 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is partially funding for such major repairs and replacements over the estimated 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 the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to the limitations of the authority described in the Association's governing documents, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

NOTE G-RELATED PARTY TRANSACTIONS

A unit owner received approximately \$10,525 in compensation for accounting services performed for the Association.

AMBASSADOR I CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2018

NOTE H-PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at May 31, 2018:

	<u>2018</u>
Condominium Unit #304	\$ 107,781
Accumulated Depreciation	<u>(65,811)</u>
	<u>\$ 41,970</u>

NOTE I-MORTGAGE NOTES PAYABLE

Mortgage notes payable consists of the following:

The Association has a note with a 4.375% one-year adjustable rate with First Federal Bank. The note is payable in monthly installments of \$491 that include interest and matures on July 1, 2034. It is collateralized by unit #304. The outstanding balance as of May 31, 2018 was \$54,283.

Principal payments required on the note payable for future years are summarized as follows:

<u>Year ending May 31,</u>	
2019	4,051
2020	4,205
2021	4,366
2022	4,532
2023	4,705
Thereafter	<u>32,424</u>
	<u>\$54,283</u>

Interest expense for the year ended May 31, 2018 was \$2,370.

AMBASSADOR I CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2018

NOTE J-SPECIAL ASSESSMENT

The Association approved a special assessment in the amount of \$1,678,000 to pay for exterior remediation, windows and tuckpointing. Payments are due in a lump sum October 1, 2018 or may make monthly payments over a period of 15 years.

NOTE K-NOTES PAYABLE

In August 2017 the Association secured a line of credit for up to \$1,628,000 with 1st Security Bank of Washington. For the first 12 months of the loan the Association will make monthly interest payments on the outstanding balance of the unpaid principal balance. On the first anniversary the Association will begin making monthly payments of principal and interest to fully amortize the loan, on a straight-line basis, as of the day before the 15th anniversary of the effective date of the Promissory Note. As of May 31, 2018, the balance on the line of credit was \$260,000.

Interest expense related to these obligations for the year ended May 31, 2018, was \$1,528.

SUPPLEMENTARY INFORMATION

**AMBASSADOR I CONDOMINIUM ASSOCIATION
UNAUDITED SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS
May 31, 2018**

A specialist conducted a study in 2016 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 replacement 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 or replacement.

The following information on page 12 is based on the study and present significant information about the components of common property.

THE SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS THAT HAS
NOT BEEN AUDITED APPEARS ON PAGE 12



RESERVE STUDY

AMBASSADOR I CONDOMINIUMS

FULLY FUNDED BALANCE CALCULATION

COMPONENT DESCRIPTION	TYPICAL USEFUL LIFE	NEXT SCHEDULED REPAIR CYCLE	CURRENT REPLACE COST	FULLY FUNDED BALANCE
BRICK - EXT CLADDING	30	1	\$ 33,766	\$ 32,640
STONE - EXT CLADDING	30	1	\$ 9,254	\$ 8,946
STRUCTURAL STEEL FRAMING	30	4	\$ 1,465	\$ 1,270
METAL RAILINGS & HANDRAILS	20	7	\$ 2,375	\$ 1,544
WOOD PANELING - WAINSCOT	10	0	\$ 581	\$ 581
WOOD STAIR RAILINGS	20	0	\$ 2,014	\$ 2,014
ROOFING - LOW SLOPED	10	9	\$ 5,856	\$ 586
SHEET METAL FLASHING	20	4	\$ 16,875	\$ 13,500
DOWNSPOUTS	10	4	\$ 2,428	\$ 1,457
ROOF ACCESSORIES	10	4	\$ 5,850	\$ 3,510
SEALANTS	10	1	\$ 11,834	\$ 10,651
DOORS	20	7	\$ 12,863	\$ 8,361
WINDOWS	25	1	\$ 418,931	\$ 402,174
FLOORING - GRANITE	20	8	\$ 1,826	\$ 1,096
FLOORING - CARPET	10	4	\$ 21,811	\$ 13,087
PAINT - INTERIOR	10	10	\$ 33,292	\$ -
PAINT - EXTERIOR	10	1	\$ 59,265	\$ 53,339
MAILBOX	20	3	\$ 3,450	\$ 2,933
AWNING	10	1	\$ 2,420	\$ 2,178
PORTICO	10	5	\$ 6,089	\$ 3,045
METAL GUARDRAILS	20	0	\$ 5,940	\$ 5,940
EQUIPMENT	10	1	\$ 5,754	\$ 5,179
FURNISHINGS	5	2	\$ 3,000	\$ 1,800
ELEVATOR	20	7	\$ 59,100	\$ 38,415
PLUMBING	20	10	\$ 46,175	\$ 23,088
WATER HEATER	10	0	\$ 3,150	\$ 3,150
MECH/HVAC	20	5	\$ 4,200	\$ 3,150
FIRE PROTECTION	6	5	\$ 24,025	\$ 4,004
ELECTRICAL	20	1	\$ 6,250	\$ 5,938
LIGHTING - INTERIOR	15	0	\$ 30,957	\$ 30,957
LIGHTING - EMERGENCY	20	2	\$ 3,813	\$ 3,432
LIGHTING - EXTERIOR	10	1	\$ 2,576	\$ 2,318
INTERCOM	20	1	\$ 965	\$ 917
ELECTRONIC SURVEILLANCE	10	7	\$ 8,625	\$ 2,588
PAVING - CONCRETE	20	1	\$ 1,680	\$ 1,596
PLANTING IRRIGATION	10	8	\$ 6,090	\$ 1,218
PLANTER BOXES	20	5	\$ 4,258	\$ 3,194
RENTAL UNIT	20	3	\$ 3,000	\$ 2,550

Total \$ 695,378

TOTAL RESERVE BALANCE* = \$ 449,989

PERCENT FULLY FUNDED = 65%

NOTES:

MANY COMPONENT REPLACEMENT AND/OR REPAIR EXPENSES ARE BROKEN INTO PERCENTAGES OF TOTAL REPLACEMENT OVER THE 30 YEAR RESERVE STUDY. AS SUCH, TO PROVIDE FOR A MORE ACCURATE UNDERSTANDING OF THE CURRENT FULLY FUNDED BALANCE, THE REPLACEMENT AND/OR REPAIR COSTS DELINEATED WITHIN THE FULLY FUNDED CALCULATION ARE THE HIGHEST COST FOR THE PARTICULAR COMPONENT WITHIN THE FIRST 10 YEARS OF THE 30 YEAR STUDY.

*COMPONENT REMOVED FROM RESERVE STUDY ANALYSIS PER HOA