Goldklang Group® CPAs, P.C.

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# Independent Auditor's Report

To the Board of Directors of
Presidential Owners, Inc.

## Report on the Financial Statements

We have audited the accompanying financial statements of Presidential Owners, Inc., which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income, members' equity and cash flows for the years 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 audits. We conducted our audits 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 Presidential Owners, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years 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 information on future major repairs and replacements on page 11 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 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.

Goldklang Group CPAs, P.C.

Reston, Virginia
October 24, 2018

PRESIDENTIAL OWNERS, INC.
BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| Cash and Cash Equivalents | $ 380,825 | $ 379,053 |
| Cooperative Fees Receivable | 2,371 | 8,353 |
| Prepaid Expenses | 4,478 | 4,902 |
| Land, Building and Improvements - Net | 1,078,792 | 1,093,389 |
| Total Assets | $ 1,466,466 | $ 1,485,697 |
| **LIABILITIES AND OWNERS' EQUITY** | | |
| Accounts Payable | $ 10,596 | $ 30,036 |
| Accrued Real Estate Taxes | 26,292 | 26,310 |
| Prepaid Cooperative Fees | 9,410 | 3,904 |
| Total Liabilities | $ 46,298 | $ 60,250 |
| Ownership Contracts | $ 1,060,000 | $ 1,060,000 |
| Replacement Reserves | 278,592 | 201,678 |
| Retained Earnings | 81,576 | 163,769 |
| Total Owners' Equity | $ 1,420,168 | $ 1,425,447 |
| Total Liabilities and Owners' Equity | $ 1,466,466 | $ 1,485,697 |

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | 2016 | 2015 |
|---|---|---|
| INCOME: | | |
| Cooperative Fees | $ 464,542 | $ 464,542 |
| Non-Resident Fees | 10,550 | 10,550 |
| Interest | 1,047 | 124 |
| Other | 514 | 368 |
| Total Income | $ 476,653 | $ 475,584 |
| EXPENSES: | | |
| Payroll and Related Costs | $ 73,691 | $ 72,068 |
| Management | 24,456 | 23,976 |
| Insurance | 18,033 | 15,674 |
| Legal, Audit and Tax Preparation | 37,337 | 18,285 |
| Administrative | 12,939 | 8,355 |
| Electricity | 28,779 | 29,689 |
| Gas | 12,913 | 20,161 |
| Water and Sewer | 9,754 | 12,480 |
| Trash Removal | 12,162 | 9,961 |
| Elevator | 13,856 | 12,699 |
| HVAC Maintenance | 9,133 | 19,092 |
| Repairs and Maintenance | 61,353 | 117,287 |
| Real Estate Taxes | 103,405 | 98,324 |
| Depreciation | 42,338 | 41,737 |
| Income Taxes | 250 | 250 |
| Total Expenses | $ 460,399 | $ 500,038 |
| Net Income (Loss) before Contribution to Reserves | $ 16,254 | $ (24,454) |
| Contribution to Reserves | (98,447) | (68,757) |
| Net Income (Loss) | $ (82,193) | $ (93,211) |

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
STATEMENTS OF OWNERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | Ownership Contracts | Replacement Reserves | Retained Earnings | Total Owners' Equity |
|---|---|---|---|---|
| Balance as of December 31, 2014 | $ 1,060,000 | $ 132,921 | $ 256,980 | $ 1,449,901 |
| Addition: | | | | |
| Contribution to Reserves | | 68,757 | | 68,757 |
| Deduction: | | | | |
| Net Loss | | | (93,211) | (93,211) |
| Balance as of December 31, 2015 | $ 1,060,000 | $ 201,678 | $ 163,769 | $ 1,425,447 |
| Addition: | | | | |
| Contribution to Reserves | | 98,447 | | 98,447 |
| Deductions: | | | | |
| Reserve Study | | (4,300) | | (4,300) |
| Appliances | | (14,183) | | (14,183) |
| Chiller | | (3,050) | | (3,050) |
| Net Loss | | | (82,193) | (82,193) |
| Balance as of December 31, 2016 | $ 1,060,000 | $ 278,592 | $ 81,576 | $ 1,420,168 |

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income (Loss) | $ (82,193) | $ (93,211) |
| Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities: | | |
| Depreciation | 42,338 | 41,737 |
| Decrease (Increase) in: | | |
| Cooperative Fees Receivable | 5,982 | (6,530) |
| Prepaid Expenses | 424 | (358) |
| Increase (Decrease) in: | | |
| Accounts Payable | (19,440) | 11,744 |
| Accrued Real Estate Taxes | (18) | 1,630 |
| Prepaid Cooperative Fees | 5,506 | (707) |
| Security Deposits | - | (375) |
| Net Cash Flows from Operating Activities | $ (47,401) | $ (46,070) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Received from Assessments (Reserves) | $ 97,400 | $ 68,633 |
| Received from Interest (Reserves) | 1,047 | 124 |
| Disbursed for Reserve Expenditures | (21,533) | - |
| Disbursed for Fixed Assets (Operations) | (27,741) | (10,175) |
| Net Cash Flows from Investing Activities | $ 49,173 | $ 58,582 |
| Net Change in Cash and Cash Equivalents | $ 1,772 | $ 12,512 |
| Cash and Cash Equivalents at Beginning of Year | 379,053 | 366,541 |
| Cash and Cash Equivalents at End of Year | $ 380,825 | $ 379,053 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash Paid for Income Taxes | $ 250 | $ 250 |

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 - NATURE OF OPERATIONS:

The Cooperative is organized under the laws of the State of Delaware for the purposes of maintaining and preserving the common property of the Cooperative. The Cooperative is located at 1026 16th Street, N.W., Washington, D.C. and consists of 41 residential and three commercial units. The Board of Directors administers the Cooperative's operations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

A) Method of Accounting - The financial statements are presented on the accrual method of accounting in which revenues are recognized when earned and expenses when incurred, not necessarily when received or paid.

B) Cooperative Fees - Cooperative members are subject to assessments to provide funds for the Cooperative's operating expenses, future capital acquisitions, and major repairs and replacements. Cooperative fees receivable at the balance sheet date represent fees due from shareholders. The Cooperative's policy is to assess late and interest charges and to retain legal counsel and take legal action against delinquent shareholders. Any excess assessments at year-end are retained by the Cooperative for use in future years. The Cooperative utilizes the allowance method of accounting for bad debt.

C) Depreciation - The building, improvements and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

D) Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions. Such estimates affect the reported amounts of assets and liabilities. They also affect the 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.

E) Cash Equivalents - For purposes of the statement of cash flows, the Cooperative considers all highly liquid investments and interest-bearing deposits with an original maturity date of three months or less to be cash equivalents.

NOTE 3 - REPLACEMENT RESERVES:

The Cooperative's governing documents do not require that funds be accumulated for future major repairs and replacements. However, the Cooperative has elected to set aside funds for replacement reserves. Accumulated funds are generally not available for expenditures for normal operations.

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

The Cooperative's Board of Directors conducted a reserve study during 2011. The Cooperative had an updated reserve study conducted by PM+ Reserves in 2016. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on the updated study.

The 2011 study does not recommend any contribution to the reserves for 2016. For 2016, the Cooperative budgeted to contribute $97,400 to reserves. Additionally, the Cooperative contributed interest income of $1,047 to reserves.

Funds are being accumulated in replacement reserves based on estimates of future needs for repair and replacement of common property components. Actual expenditures may vary from the estimated future expenditures and the variations may be material; therefore, amounts accumulated in the replacement reserves may or may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed the Board of Directors, on behalf of the Cooperative, may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As of December 31, 2016 and 2015, the Cooperative had designated $278,592 and $201,678, respectively, for replacement reserves. These designated reserves were funded by cash and cash equivalents.

NOTE 4 - INCOME TAXES:

For income tax purposes, the Cooperative files as a non-exempt cooperative under subchapter T (IRC Sections 1381 - 1388). The Cooperative's income is allocated between patronage and non-patronage income. Non-patronage income, such as rental income and other third party income is considered taxable at the normal corporate rates. Income derived from shareholders and interest income is considered patronage income. Any excess patronage income is returned to shareholders through patronage dividends. For 2016 and 2015, the Cooperative's financial statements reflect an income tax expense of $250, per year.

The Cooperative's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended December 31, 2016 and 2015, the Cooperative did not incur any penalties and interest related to income taxes. The Cooperative's federal and state tax returns for the past three years remain subject to examination by the Internal Revenue Service and the District of Columbia.

NOTE 5 - CASH AND CASH EQUIVALENTS:

As of December 31, 2016, the Cooperative maintained its funds of $380,825 in a SunTrust checking account.

The Cooperative had funds maintained in a Vanguard Group money fund. Although the value per share of this account had not changed since it was opened and its goal was to maintain a per share value of $1, this account was subject to market fluctuation risk. Therefore, the market fluctuation risk as of December 31, 2016 and 2015 was $0 and $278,469, respectively.

Balances at banks are insured by the FDIC for up to $250,000 per financial institution. Amounts in excess of the insured limits were $131,580 and $0 as of December 31, 2016 and 2015, respectively.

NOTE 6 - NCB STOCK:

The Cooperative receives patronage dividends from the National Cooperative Bank (NCB) in the form of cash, Class B2 and Class C stock. Because NCB restricts the transferability of the stock and the stock is non-redeemable and not publicly traded, the amount of stock maintained by the Cooperative is not recorded on the financial statements. As of December 31, 2016 and 2015, the Cooperative's NCB Stock totaled $29,693.

NOTE 7 - LAND, BUILDING AND IMPROVEMENTS - NET:

The land, building and improvements are carried at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of seven to fifty years. Depreciation expense was $42,338 and $41,737 for 2016 and 2015, respectively.

| | 2016 | 2015 |
|---|---|---|
| Land | $ 584,113 | $ 584,113 |
| Building, Improvements and Equipment | 1,580,462 | 1,552,721 |
| Less: Accumulated Depreciation | (1,085,783) | (1,043,445) |
| Land, Building and Improvements - Net | $ 1,078,792 | $ 1,093,389 |

NOTE 8 - MANAGEMENT SERVICES:

The Cooperative retains William C. Smith & Company, Inc. (WCS) as its management agent. Additionally, WCS owns its electrical division, District Electrical Service, Inc., WCS Property Service and Washington Heating and Cooling. During 2016 and 2015, District Electrical Services, Inc., WCS Property Service and Washington Heating and Cooling provided general repair and maintenance services for the Cooperative. The payments for these services during 2016 and 2015 were $34,024 and $8,839, respectively. As of December 31, 2016 and 2015, $1,751 and $560, respectively, were owed to WCS and its maintenance services division.

NOTE 9 - MANAGEMENT PAYROLL REIMBURSEMENTS:

The Cooperative is professionally managed by William C. Smith & Company, Inc. (WCS). WCS utilizes a central management payroll system, whereby payroll returns were filed under the management agent's name and federal identification number. In addition to the payment of management fees, the Cooperative reimbursed WCS for wages, payroll taxes, workers' compensation and health insurance for employees that performed work for the Cooperative during 2016 and 2015. For 2016 and 2015, the Cooperative incurred $365 and $337, respectively, in employer 401k match.

NOTE 10 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through October 24, 2018, the date the financial statements were available to be issued.

During 2017 and 2018, the Association incurred reserve expenditures of approximately $151,000 and $248,000, respectively.

PRESIDENTIAL OWNERS, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2016
(UNAUDITED)

The Cooperative had a replacement reserve study conducted during 2016 by PM+ Reserves 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. The estimated replacement costs presented below do not take into account the effects of inflation between the date of the study and the date the components will require repair or replacement.

The following has been extracted from the Cooperative's replacement reserve study and presents significant information about the components of common property.

| Component | 2016 Estimated Remaining Useful Life (Years) | 2016 Estimated Replacement Cost |
|---|---|---|
| Roofing | 2-22 | $ 99,500 |
| Façade | 2-13 | 134,000 |
| Windows | 30 | 246,260 |
| Doors | 10-30 | 50,900 |
| Balconies | 2 | 46,400 |
| Corridors/Lobby | 5-8 | 18,260 |
| HVAC | 5-9 | 1,085,420 |
| Plumbing | 1-59 | 220,000 |
| Electrical | 15 | 35,000 |
| Elevator | 2-9 | 517,000 |
| Fire Protection/Security | 5-24 | 83,700 |
| Washers & Dryers | 4 | 9,000 |
| Pavements | 1-8 | 4,500 |
| Annual Allowance | 1 | 1,000 |