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, 2018 and 2017, and the related statements of income, owners' 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, 2018 and 2017, 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, which 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
August 12, 2019

PRESIDENTIAL OWNERS, INC.
BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and Cash Equivalents	$ 109,412	$ 346,225
Cooperative Fees Receivable	6,527	9,697
Prepaid Expenses	5,046	4,934
Land, Building and Improvements - Net	1,417,895	1,186,066
Total Assets	$ 1,538,880	$ 1,546,922
LIABILITIES AND OWNERS' EQUITY		
Accounts Payable	$ 15,982	$ 23,978
Accrued Real Estate Taxes	32,386	27,286
Prepaid Cooperative Fees	4,295	9,063
Total Liabilities	$ 52,663	$ 60,327
Ownership Contracts	$ 1,060,000	$ 1,060,000
Replacement Reserves	278,592	278,592
Retained Earnings	147,625	148,003
Total Owners' Equity	$ 1,486,217	$ 1,486,595
Total Liabilities and Owners' Equity	$ 1,538,880	$ 1,546,922

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
INCOME:		
Cooperative Fees	$ 536,532	$ 510,996
Non-Resident Fees	8,892	13,909
Other	1,296	2,123
Total Income	$ 546,720	$ 527,028
EXPENSES:		
Payroll and Related Costs	$ 103,115	$ 85,437
Management	25,560	24,936
Insurance	18,551	17,966
Legal, Audit and Tax Preparation	8,020	10,417
Administrative	14,500	11,784
Electricity	27,909	26,450
Gas	21,753	18,327
Water and Sewer	18,263	16,355
Trash Removal	12,471	11,424
Elevator	14,167	18,228
HVAC Maintenance	19,621	21,219
Repairs and Maintenance	94,197	49,542
Real Estate Taxes	111,892	104,324
Depreciation	56,829	43,942
Income Taxes	250	250
Total Expenses	$ 547,098	$ 460,601
Net Income (Loss)	$ (378)	$ 66,427

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
STATEMENTS OF OWNERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Ownership Contracts	Replacement Reserves	Retained Earnings	Total Owners' Equity
Balance as of December 31, 2016	$ 1,060,000	$ 278,592	$ 81,576	$ 1,420,168
Addition:				
Net Income			66,427	66,427
Balance as of December 31, 2017	$ 1,060,000	$ 278,592	$ 148,003	$ 1,486,595
Deduction:				
Net Loss			(378)	(378)
Balance as of December 31, 2018	$ 1,060,000	$ 278,592	$ 147,625	$ 1,486,217

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$ (378)	$ 66,427
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	56,829	43,942
Decrease (Increase) in:		
Cooperative Fees Receivable	3,170	(7,326)
Prepaid Expenses	(112)	(456)
Increase (Decrease) in:		
Accounts Payable	(7,996)	13,382
Accrued Real Estate Taxes	5,100	994
Prepaid Cooperative Fees	(4,768)	(347)
Net Cash Flows from Operating Activities	$ 51,845	$ 116,616
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disbursed for Fixed Assets	$ (288,658)	$ (151,216)
Net Cash Flows from Investing Activities	$ (288,658)	$ (151,216)
Net Change in Cash and Cash Equivalents	$ (236,813)	$ (34,600)
Cash and Cash Equivalents at Beginning of Year	346,225	380,825
Cash and Cash Equivalents at End of Year	$ 109,412	$ 346,225
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, 2018 AND 2017

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 fees 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 fees 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 had a reserve study conducted by PM+ Reserves in 2016. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The study recommends a contribution of $349,450 plus an interest contribution of $20,240 to the reserves for 2018. For 2018, the Cooperative did not budget to contribute 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, 2018 and 2017, the Cooperative had designated $278,592 for replacement reserves. The replacement reserves are not fully funded by cash and cash equivalents as of December 31, 2018.

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 2018 and 2017, 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. 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, 2018, the Cooperative maintained its funds of $109,412 in a SunTrust checking account.

NOTE 5 - CASH AND CASH EQUIVALENTS: (CONTINUED)

Balances at banks are insured by the FDIC for up to $250,000 per financial institution. Amounts in excess of the insured limits were $0 and $163,326 as of December 31, 2018 and 2017, respectively.

NOTE 6 - 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 $56,829 and $43,942 for 2018 and 2017, respectively.

	2018	2017
Land	$ 584,113	$ 584,113
Building and Improvements	2,020,336	1,731,678
Less: Accumulated Depreciation	(1,186,554)	(1,129,725)
Fixed Assets - Net	$ 1,417,895	$ 1,186,066

NOTE 7 - 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 2018 and 2017, 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 2018 and 2017 were $20,955 and $11,997, respectively. As of December 31, 2018 and 2017, $595 and $5,288, respectively, were owed to WCS and its maintenance services division.

NOTE 8 - 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 2018 and 2017.

NOTE 9 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through August 12, 2019, the date the financial statements were available to be issued.

PRESIDENTIAL OWNERS, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2017
(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; however, the Cooperative's replacement reserve study does take inflation into consideration when evaluating future expenditures and recommended contributions to reserves.

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