Goldklang Group CPAs PC

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Independent Auditor's Report

To the Board of Directors of
Presidential Owners, Inc.

Opinion

We have audited the accompanying financial statements of Presidential Owners, Inc., which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income, owners' equity and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Presidential Owners, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Presidential Owners, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Presidential Owners, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Presidential Owners, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 12 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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
January 11, 2024

PRESIDENTIAL OWNERS, INC.
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
Cash and Cash Equivalents	$ 133,305	$ 194,113
Cooperative Fees Receivable	12,390	13,557
Prepaid Expenses	2,652	2,652
Land, Building and Improvements - Net	1,289,843	1,261,485
Total Assets	$ 1,438,190	$ 1,471,807
LIABILITIES AND OWNERS' EQUITY		
Accounts Payable	$ 18,818	$ 66,528
Accrued Real Estate Taxes	33,232	33,232
PPP Loan	19,268	19,268
Prepaid Cooperative Fees	5,770	5,844
Total Liabilities	$ 77,088	$ 124,872
Ownership Contracts	$ 1,060,000	$ 1,060,000
Replacement Reserves	458,177	539,777
Retained Earnings (Deficit)	(157,075)	(252,842)
Total Owners' Equity	$ 1,361,102	$ 1,346,935
Total Liabilities and Owners' Equity	$ 1,438,190	$ 1,471,807

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
INCOME:		
Cooperative Fees	$ 639,692	$ 621,168
Non-Resident Fees	9,504	8,802
Other	795	605
Total Income	$ 649,991	$ 630,575
EXPENSES:		
Reimbursed Payroll and Related Costs	$ 114,571	$ 112,939
Management	28,452	27,900
Insurance	18,880	19,709
Legal, Audit and Tax Preparation	86,605	115,307
Administrative	13,720	12,127
Electricity	34,373	30,897
Gas	26,897	23,008
Water and Sewer	20,237	20,911
Trash Removal	22,613	17,848
Elevator	16,669	16,465
HVAC Maintenance	11,245	28,705
Repairs and Maintenance	55,142	89,502
Real Estate Taxes	132,928	132,054
Depreciation	53,242	53,072
Income Taxes	250	250
Total Expenses	$ 635,824	$ 700,694
Net Income (Loss) before Contribution to Reserves	$ 14,167	$ (70,119)
Contribution to Reserves	-	(63,889)
Net Income (Loss)	$ 14,167	$ (134,008)

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
STATEMENTS OF OWNERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Ownership Contracts	Replacement Reserves	Retained Earnings (Deficit)	Total Owners' Equity
Balance as of December 31, 2020	$ 1,060,000	$ 475,888	$ (118,834)	$ 1,417,054
Addition:				
Contribution to Reserves		63,889		63,889
Deduction:				
Net Loss			(134,008)	(134,008)
Balance as of December 31, 2021	$ 1,060,000	$ 539,777	$ (252,842)	$ 1,346,935
Addition:				
Net Income			14,167	14,167
Deduction:				
Boiler		(81,600)	81,600	
Balance as of December 31, 2022	$ 1,060,000	$ 458,177	$ (157,075)	$ 1,361,102

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$ 14,167	$ (134,008)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	53,242	53,072
Decrease (Increase) in:		
Cooperative Fees Receivable	1,167	6,966
Prepaid Expenses	-	3,723
Increase (Decrease) in:		
Accounts Payable	(47,710)	53,457
PPP Loan	-	19,268
Accrued Real Estate Taxes	-	291
Prepaid Cooperative Fees	(74)	(1,217)
Net Cash Flows from Operating Activities	$ 20,792	$ 1,552
CASH FLOWS FROM INVESTING ACTIVITIES:		
Received from Cooperative Assessments (Reserves)	$ -	$ 63,889
Disbursed for Reserve Expenditures	(81,600)	-
Net Cash Flows from Investing Activities	$ (81,600)	$ 63,889
Net Change in Cash and Cash Equivalents	$ (60,808)	$ 65,441
Cash and Cash Equivalents at Beginning of Year	194,113	128,672
Cash and Cash Equivalents at End of Year	$ 133,305	$ 194,113
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid for Income Taxes	$ 250	$ 250

See Accompanying Notes to Financial Statements

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 accordance with accounting principles generally accepted in the United States of America.

B) Cooperative Assessments - Cooperative members are subject to annual assessments to provide funds for the Cooperative'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 Cooperative's performance obligations related to its assessments are satisfied over time on a daily pro-rata basis using the input method. Cooperative fees receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from members. The Cooperative'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 Cooperative for use in the succeeding year. The Cooperative treats uncollectible assessments as credit losses. Methods, inputs, and assumptions used to evaluate when assessments are considered uncollectible include consideration of past experience and susceptibility to factors outside the Cooperative's control.

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 that affect certain reported amounts and disclosures. Accordingly, 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.

The Cooperative had a reserve study conducted by PM+ Reserves in 2016. The Cooperative had an updated reserve study conducted during 2023 by Association Reserves. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on the 2023 study.

The 2016 study recommends a contribution of $377,510 plus an interest contribution of $13,780 to the reserves for 2022. For 2022, the Cooperative did not budget any amount 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, 2022 and 2021, the Cooperative had designated $458,177 and $539,777, respectively, for replacement reserves. The replacement reserves are not fully funded by cash and cash equivalents as of December 31, 2022 and 2021.

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.

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, 2022, the Cooperative maintained its funds of $133,305 in a Truist checking account.

NOTE 6 - COOPERATIVE FEES RECEIVABLE:

At December 31, 2022 and 2021, the Cooperative had delinquent assessments of $12,390 and $13,557, respectively. It is the opinion of the board of directors that the Cooperative will ultimately prevail against members with delinquent assessments and, accordingly, no allowance for uncollectible accounts is deemed necessary.

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 $53,242 and $53,072 for 2022 and 2021, respectively.

	2022	2021
Land	$ 584,113	$ 584,113
Building and Improvements	2,109,446	2,027,846
Less: Accumulated Depreciation	(1,403,716)	(1,350,474)
Fixed Assets - Net	$ 1,289,843	$ 1,261,485

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 2022 and 2021.

NOTE 9 - RELATED PARTY TRANSACTIONS:

The Cooperative retains William C. Smith & Company, Inc. (WCS) as its management agent. Additionally, WCS and a subsidiary maintenance division, District Electrical, Inc., provided general repair and maintenance services for the Cooperative. The charges for these services were $93,193 and $11,094 for years 2022 and 2021, respectively. As of December 31, 2022 and 2021, $240 and $459, respectively, were owed to WCS and its divisions.

NOTE 10 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through January 11, 2024, the date the financial statements were available to be issued.

Subsequent to year-end, the Cooperative signed a contract for panel replacement in the amount of approximately $21,000 to be funded by replacement reserves.

PRESIDENTIAL OWNERS, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2022
(UNAUDITED)

The Cooperative had a replacement reserve study conducted during 2023 by Association 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	2023 Estimated Remaining Useful Life (Years)	2023 Estimated Replacement Cost
Balcony Decking - Reseal	0	$ 6,300
Asphalt Drive - Reconstruction	4	7,500
Chiller - Replace	14	125,000
HVAC - Hallway Units	14	58,500
Air Handler - Replacement	14	70,000
Wall Lights - Replacement	2	20,700
Metal Fire Escape - Repaint	0	28,500
Hallway Carpet - Replacement	2	37,500
Tile - Reseal	7	1,600
Building Front Door - Replacement	10	25,000
Intercom - Replacement	3	5,500
Boiler - Replacement	18	87,500
Water Heater/Tank	2-7	38,000
Lobby - Refurbish	2	23,000
Manager Office/Apt - Refurbish	2	17,750
Hallways - Repaint	2	33,750
Stairwell - Repaint	2	7,250
Hallway Doors - Refinish	2	4,800
Brick Facade - Tuckpointing	1	216,000
Limestone - Clean/Seal	6	80,000
Building Flat Roof - Replacement	6	74,250
Flat Roof (Garage) - Replacement	0	5,000
Skylight - Replacement	6	3,100
Structure - Inspection	0	36,250
Elevator - Modernize	4-23	970,000
Fire Alarm System - Modernize	5	32,500
Windows - Replacement	10	333,000
Basement Windows - Replacement	0	13,750