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, 2023 and 2022, 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, 2023 and 2022, 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
July 24, 2024

PRESIDENTIAL OWNERS, INC.
BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

| | 2023 | 2022 |
|---|---|---|
| **ASSETS** | | |
| Cash and Cash Equivalents | $ 213,745 | $ 133,305 |
| Cooperative Fees Receivable | 16,247 | 12,390 |
| Prepaid Expenses | 4,759 | 2,652 |
| Land, Building and Improvements - Net | 1,309,716 | 1,289,843 |
| Total Assets | $ 1,544,467 | $ 1,438,190 |
| **LIABILITIES AND OWNERS' EQUITY** | | |
| Accounts Payable | $ 20,699 | $ 18,818 |
| Accrued Real Estate Taxes | 33,232 | 33,232 |
| PPP Loan | 19,268 | 19,268 |
| Prepaid Cooperative Fees | 5,578 | 5,770 |
| Total Liabilities | $ 78,777 | $ 77,088 |
| Ownership Contracts | $ 1,060,000 | $ 1,060,000 |
| Replacement Reserves | 388,049 | 458,177 |
| Retained Earnings (Deficit) | 17,641 | (157,075) |
| Total Owners' Equity | $ 1,465,690 | $ 1,361,102 |
| Total Liabilities and Owners' Equity | $ 1,544,467 | $ 1,438,190 |

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

| | 2023 | 2022 |
|---|---|---|
| INCOME: | | |
| Cooperative Fees | $ 684,624 | $ 639,692 |
| Non-Resident Fees | 10,188 | 9,504 |
| Other | 1,253 | 795 |
| Total Income | $ 696,065 | $ 649,991 |
| EXPENSES: | | |
| Reimbursed Payroll and Related Costs | $ 110,364 | $ 114,571 |
| Management | 29,304 | 28,452 |
| Insurance | 19,984 | 18,880 |
| Legal, Audit and Tax Preparation | 26,472 | 86,605 |
| Administrative | 13,758 | 13,720 |
| Electricity | 42,376 | 34,373 |
| Gas | 26,405 | 26,897 |
| Water and Sewer | 23,934 | 20,237 |
| Trash Removal | 24,040 | 22,613 |
| Elevator | 19,056 | 16,669 |
| Grounds Maintenance | 12,216 | 10,524 |
| HVAC Maintenance | 11,319 | 11,245 |
| Repairs and Maintenance | 46,723 | 44,618 |
| Real Estate Taxes | 135,021 | 132,928 |
| Depreciation | 50,255 | 53,242 |
| Income Taxes | 250 | 250 |
| Total Expenses | $ 591,477 | $ 635,824 |
| Net Income | $ 104,588 | $ 14,167 |

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
STATEMENTS OF OWNERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

| | Ownership Contracts | Replacement Reserves | Retained Earnings (Deficit) | Total Owners' Equity |
|---|---|---|---|---|
| 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 |
| Addition: | | | | |
| Net Income | | | 104,588 | 104,588 |
| Deductions: | | | | |
| Irrigation | | (21,065) | 21,065 | |
| Masonry | | (6,775) | 6,775 | |
| Panel | | (21,128) | 21,128 | |
| Reserve Study | | (3,800) | 3,800 | |
| Metal Restoration | | (17,360) | 17,360 | |
| Balance as of December 31, 2023 | $ 1,060,000 | $ 388,049 | $ 17,641 | $ 1,465,690 |

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

| | 2023 | 2022 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income | $ 104,588 | $ 14,167 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Depreciation | 50,255 | 53,242 |
| Decrease (Increase) in: | | |
| Cooperative Fees Receivable | (3,857) | 1,167 |
| Prepaid Expenses | (2,107) | - |
| Increase (Decrease) in: | | |
| Accounts Payable | 1,881 | (47,710) |
| Prepaid Cooperative Fees | (192) | (74) |
| Net Cash Flows from Operating Activities | $ 150,568 | $ 20,792 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Disbursed for Reserve Expenditures | $ (70,128) | $ (81,600) |
| Net Cash Flows from Investing Activities | $ (70,128) | $ (81,600) |
| Net Change in Cash and Cash Equivalents | $ 80,440 | $ (60,808) |
| Cash and Cash Equivalents at Beginning of Year | 133,305 | 194,113 |
| Cash and Cash Equivalents at End of Year | $ 213,745 | $ 133,305 |
| 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 $55,000 plus an interest contribution of $25,600 to the reserves for 2023. For 2023, the Cooperative did not contribute 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, 2023 and 2022, the Cooperative had designated $388,049 and $458,177, respectively for replacement reserves.

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, 2023, the Cooperative maintained its funds of $213,745 in a Truist checking account.

NOTE 6 - COOPERATIVE FEES RECEIVABLE:

At December 31, 2023 and 2022, the Cooperative had delinquent assessments of $16,247 and $12,390, 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 credit losses 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 $50,255 and $53,242 for 2023 and 2022, respectively.

| | 2023 | 2022 |
|---|---|---|
| Land | $ 584,113 | $ 584,113 |
| Building and Improvements | 2,179,574 | 2,109,446 |
| Less: Accumulated Depreciation | (1,453,971) | (1,403,716) |
| Fixed Assets - Net | $ 1,309,716 | $ 1,289,843 |

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 2023 and 2022.

NOTE 9 - RELATED PARTY TRANSACTIONS:

The Cooperative retains William C. Smith & Company, Inc. (WCS) as its management agent. Additionally, WCS and their subsidiary maintenance divisions, District Electrical, Inc. and Washington Heating and Cooling provided general repair and maintenance services for the Cooperative. The charges for these services were $17,909 and $93,193 for years 2023 and 2022, respectively. As of December 31, 2023 and 2022, $2,743 and $240, respectively, were owed to WCS and its divisions.

NOTE 10 - CHANGE IN MANAGEMENT:

Subsequent to year-end, the Association changed management agents. Effective January 1, 2024, Community Systems, Inc., became the new management company.

NOTE 11 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through July 24, 2024, the date the financial statements were available to be issued.

PRESIDENTIAL OWNERS, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2023
(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 |