

**RICHMOND SQUARE OFFICE  
TOWNHOUSE CONDOMINIUMS  
COUNCIL OF CO-OWNERS, INC.**

**AUDITED FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2016 AND 2015**

**RICHMOND SQUARE OFFICE TOWNHOUSE CONDOMINIUMS  
COUNCIL OF CO-OWNERS, INC.**

**JUNE 30, 2016 AND 2015**

**TABLE OF CONTENTS**

Independent Auditor's Report	1-2
Balance Sheets	3
Statements of Revenues, Expenses and Changes in Members' Equity	4
Statements of Cash Flows	5
Notes to Financial Statements	6-8
Supplementary Information on Future Major Repairs and Replacements	9

**SUMMERS, MCCRARY & SPARKS, P.S.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

---

MEMBERS:

AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY  
OF CERTIFIED PUBLIC ACCOUNTANTS

PRIVATE COMPANIES  
PRACTICE SECTION OF THE AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

STUART K. McCRARY, JR., CPA  
THOMAS S. SPARKS, CPA  
RYAN R. LASKI, CPA

\_\_\_\_\_  
SUSAN A. LACY, CPA

\_\_\_\_\_  
LAURENCE T. SUMMERS  
1961-1992

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Richmond Square Office Townhouse Condominiums Council of Co-Owners, Inc.

We have audited the accompanying financial statements of Richmond Square Office Townhouse Condominiums Council of Co-Owners, Inc., which comprise the balance sheet as of June 30, 2016, 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 misstatements.

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 Richmond Square Office Townhouse Condominiums Council of Co-Owners, Inc. as of June 30, 2016, and the results of its operations and its cash flows for the 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 Supplementary Information on Future Major Repairs and Replacements on page 9 be presented to supplement the basic financial statements. Such information, although not 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 response 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.

*Summers, McCrary & Sparks, PSC*

Summers, McCrary & Sparks, PSC  
Lexington, Kentucky  
December 9, 2016

**RICHMOND SQUARE OFFICE TOWNHOUSE CONDOMINIUMS  
COUNCIL OF CO-OWNERS, INC.  
BALANCE SHEETS  
JUNE 30, 2016 AND 2015**

**ASSETS**

	<u>Operating</u>	<u>Replacement Reserve</u>	<u>Totals</u>	
			<u>2016</u>	<u>2015</u>
Assets:				
Cash	\$ 25,476	\$ 45,073	\$ 70,549	\$ 75,979
Assessments receivable - association members	<u>1,489</u>	<u>-</u>	<u>1,489</u>	<u>3,272</u>
Total Assets	<u>\$ 26,965</u>	<u>\$ 45,073</u>	<u>\$ 72,038</u>	<u>\$ 79,251</u>

**LIABILITIES AND MEMBERS' EQUITY**

Current Liabilities:				
Condominium fees received in advance	\$ 3,687	\$ -	\$ 3,687	\$ 6,096
Note payable	<u>11,215</u>	<u>-</u>	<u>11,215</u>	<u>10,722</u>
Total Current Liabilities	14,902	-	14,902	16,818
Long-Term Note Payable	<u>10,550</u>	<u>-</u>	<u>10,550</u>	<u>22,620</u>
Total Liabilities	25,452	-	25,452	39,438
Members' Equity	<u>1,513</u>	<u>45,073</u>	<u>46,586</u>	<u>39,813</u>
Total Liabilities and Members' Equity	<u>\$ 26,965</u>	<u>\$ 45,073</u>	<u>\$ 72,038</u>	<u>\$ 79,251</u>

See accompanying notes to financial statements

**RICHMOND SQUARE OFFICE TOWNHOUSE CONDOMINIUMS  
COUNCIL OF CO-OWNERS, INC.  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' EQUITY  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>Operating</u>	<u>Replacement Reserve</u>	<u>Totals</u>	
			<u>2016</u>	<u>2015</u>
Revenues:				
Dues for common expenses	\$ 108,486	\$ -	\$ 108,486	\$ 108,486
Assessment	7,082	-	7,082	276
Interest income	-	67	67	67
Miscellaneous income	239	-	239	80
	<u>115,807</u>	<u>67</u>	<u>115,874</u>	<u>108,909</u>
Total Revenue				
Expenses:				
Utilities - electric	3,537	-	3,537	3,609
Utilities - water and sewer	16,184	-	16,184	17,704
Bank Service Charges	3	-	3	200
Repairs and maintenance	33,845	-	33,845	17,282
Grounds maintenance	18,514	-	18,514	20,949
Dumpster rental	1,792	-	1,792	1,157
Management fees	7,583	-	7,583	7,500
Security and fire alarm	8,431	-	8,431	9,206
Insurance	13,331	-	13,331	19,611
Interest expense	1,424	-	1,424	1,672
Professional fees	2,375	-	2,375	2,200
Taxes and licenses	-	-	-	1
Office expenses	240	-	240	69
Pest control	1,842	-	1,842	1,937
	<u>109,101</u>	<u>-</u>	<u>109,101</u>	<u>103,097</u>
Total Expenses				
Excess (Deficiency) of Revenues over Expenses	6,706	67	6,773	5,812
Members' Equity, beginning of year	<u>(5,193)</u>	<u>45,006</u>	<u>39,813</u>	<u>34,001</u>
Members' Equity, end of year	<u>\$ 1,513</u>	<u>\$ 45,073</u>	<u>\$ 46,586</u>	<u>\$ 39,813</u>

See accompanying notes to financial statements

**RICHMOND SQUARE OFFICE TOWNHOUSE CONDOMINIUMS  
COUNCIL OF CO-OWNERS, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	Operating	Replacement Reserve	Totals	
			2016	2015
Increase (Decrease) in Cash:				
Cash Flows from Operating Activities:				
Cash received from association members	\$ 114,942	\$ -	\$ 114,942	\$ 116,797
Cash paid to suppliers	(107,677)	-	(107,677)	(100,092)
Interest paid	(1,424)	-	(1,424)	(1,672)
Interest received	-	67	67	67
Other income	239	-	239	80
Income taxes paid	-	-	-	(1)
	<u>6,080</u>	<u>67</u>	<u>6,147</u>	<u>15,179</u>
Net Cash Provided (Used) by Operating Activities				
Cash Flows from Financing Activities:				
Loan repayment	(11,577)	-	(11,577)	(9,410)
	<u>(11,577)</u>	<u>-</u>	<u>(11,577)</u>	<u>(9,410)</u>
Net Cash Provided (Used) by Financing Activities				
Net Cash Increase (Decrease) for Year	(5,497)	67	(5,430)	5,769
Cash, beginning of year	<u>30,973</u>	<u>45,006</u>	<u>75,979</u>	<u>70,210</u>
Cash, end of year	<u>\$ 25,478</u>	<u>\$ 45,073</u>	<u>\$ 70,549</u>	<u>\$ 75,979</u>
Reconciliation of Excess (Deficiency) of Revenue over Expenses to Net Cash Provided (Used) by Operating Activities:				
Excess (deficiency) of revenue over expenses	\$ 6,706	\$ 67	\$ 6,773	\$ 5,812
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided (used) by operating activities:				
(Increase) decrease in assessments receivable	1,783	-	1,783	4,054
(Increase) decrease in prepaid expenses	-	-	-	1,332
Increase (decrease) in condominium fees received in advance	(2,409)	-	(2,409)	3,981
	<u>(2,409)</u>	<u>-</u>	<u>(2,409)</u>	<u>3,981</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 6,080</u>	<u>\$ 67</u>	<u>\$ 6,147</u>	<u>\$ 15,179</u>

See accompanying notes to financial statements

**RICHMOND SQUARE OFFICE TOWNHOUSE CONDOMINIUMS  
COUNCIL OF CO-OWNERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Organization

The Council was formed in May 1987 and is comprised of owners of 26 condominium office units in the Richmond Square Office Townhouse Condominiums with the approximate square footage of 24,929. On July 1, 1993, the Council merged with Phase III and IV of the development which was formed in October 1988 and was comprised of 39 condominium office units with an approximate square footage of 38,996.

All policy decisions are formulated by the Board of Directors. Major decisions are referred to the Owners before action is taken. The books and records are maintained by the Treasurer of the Council. The Council has a contract with a management company to oversee all maintenance matters.

Basis of Accounting

The Council reports on the accrual basis for financial reporting purposes and on the cash basis for tax reporting purposes. No provision for current or deferred income taxes has been made as the Council expects such taxes to be immaterial.

Fund Accounting

The Council's governing documents provide certain guidelines for its financial activities. To ensure observance of limitations and restriction on the use of financial resources, the Council maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes according to their nature and purposes as follows:

Operating – Used to account for financial resources available for the general operations of the Council.

Replacement Reserve – Used to accumulate financial resources designated for future major repairs and replacements.

Member Assessments

Council Owners are subject to annual assessments to provide funds for the Council's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable as of June 30, 2016 and 2015 represent fees due from members. The Council's policy is to retain legal counsel and place liens on the properties of members whose assessments are in arrears. It is the opinion of the board of directors that the Council will ultimately prevail against owners with delinquent assessments and, accordingly, no allowance for uncollectible accounts is deemed necessary. As of June 30, 2016 and 2015, the Council had assessments receivable of \$1,489 and \$3,272, respectively.

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.

**RICHMOND SQUARE OFFICE TOWNHOUSE CONDOMINIUMS  
COUNCIL OF CO-OWNERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash and Cash Equivalents

The Council considers all cash, restricted and unrestricted, as cash for the purpose of the statements of cash flows.

Income Taxes

The Council qualifies as a tax exempt Homeowners Association under Internal Revenue Code Section 528 for the year ended June 30, 2016. Under that section, the Council is not taxed on income and expense related to exempt purpose, which is acquisition, construction, management, maintenance and care of association property. The Council is taxed only on its net nonexempt function income, such as interest earned, at regular federal rate of 30%, state rate of 4%, and local rates of 0.5%. Income tax expense for the years ended June 30, 2016 and 2015 was \$0 and \$1, respectively. The Council's open audit periods are 2012-2015.

**NOTE 2 – ALLOCATION OF COMMON EXPENSES**

All administration expenses for the common elements and facilities, whether located inside or outside of the units, are paid by the Council and allocated to all unit owners as a common expense according to the By-Laws of the Council.

**NOTE 3 – FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Council's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and generally are not available for expenditures for normal operations.

Funds are being accumulated in the replacement reserve based on estimates of future needs for repairs and replacements of common property components. During the years ended June 30, 2016 and 2015, the Council collected assessments in the amount of \$0 and \$0, respectively.

Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement reserve may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Council has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

The Council has accumulated \$45,073 in the Replacement Reserve based on estimates of future needs for repairs and replacements of common property components. These funds are generally not available for operating purposes.

**RICHMOND SQUARE OFFICE TOWNHOUSE CONDOMINIUMS  
COUNCIL OF CO-OWNERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 4 – NOTE PAYABLE**

The Council entered into a new, line of credit agreement with Alliance Bank on May 24, 2012, for \$75,000. The line bore interest at 4.5% initially but was tied to the prime rate plus 1%. The line originally matured on May 24, 2015. On May 27, 2015, the line of credit was converted into a promissory note with a principal balance of \$34,142. The terms of this promissory note are an interest rate of the prime rate plus 1%, with a floor of 4.5% and no ceiling. The monthly payment amount is \$1,000 with a maturity date of June 24, 2018. The Council has pledged their monthly assessments as security. The balance of the note payable as of June 30, 2016 and 2015 was \$21,765 and \$33,342, respectively. Maturities are as follow:

Year Ending June 30,	
2016	\$ 11,215
2017	<u>10,550</u>
	<u>\$ 21,765</u>

**NOTE 5 – SUBSEQUENT EVENTS**

As required by SFAS No. 165, Subsequent Events, the Association has reviewed events subsequent to the balance sheet date of the accompanying financial statements through December 9, 2016 and determined that no events have occurred which would render the accompanying financial statements misleading

**RICHMOND SQUARE OFFICE TOWNHOUSE CONDOMINIUMS  
COUNCIL OF CO-OWNERS, INC.  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS (UNAUDITED)  
JUNE 30, 2016**

The Council's management in June 2016, projected 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 as of June 2016.

The following information is based on the projection and presents significant information about the components of common property.

	<u>Last Repair/ Replacement</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Designated for Repairs/Replacements June 30, 2016</u>
Parking Lot	July, 2003	15	\$ 95,000	\$ 30,000
Painting	August, 2015	1 - 4	10,000	10,000
Roofing	July, 2002	15	<u>130,000</u>	<u>5,073</u>
			<u>\$ 235,000</u>	<u>\$ 45,073</u>