

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

**AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018 AND 2017**

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

JUNE 30, 2018 AND 2017

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

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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, 2018 and 2017, and the related statements of revenues, expenses, and changes in members' equity 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, 2018 and 2017, 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
November 26, 2018

**RICHMOND SQUARE OFFICE TOWNHOUSE CONDOMINIUMS
COUNCIL OF CO-OWNERS, INC.
BALANCE SHEETS
JUNE 30, 2018 AND 2017**

ASSETS

	<u>Operating</u>	<u>Replacement Reserve</u>	<u>Totals</u>	
			<u>2018</u>	<u>2017</u>
Assets:				
Cash	\$ 19,944	\$ 40,902	\$ 60,846	\$ 44,102
Assessments receivable - association members	<u>5,728</u>	<u>-</u>	<u>5,728</u>	<u>2,218</u>
Total Assets	<u>\$ 25,672</u>	<u>\$ 40,902</u>	<u>\$ 66,574</u>	<u>\$ 46,320</u>

LIABILITIES AND MEMBERS' EQUITY

Current Liabilities:				
Accounts Payable	\$ 11,559	\$ -	\$ 11,559	\$ -
Condominium fees received in advance	2,471	-	2,471	1,890
Note payable	<u>13,597</u>	<u>-</u>	<u>13,597</u>	<u>13,033</u>
Total Current Liabilities	27,627	-	27,627	14,923
Long-Term Note Payable	<u>62,909</u>	<u>-</u>	<u>62,909</u>	<u>76,457</u>
Total Liabilities	90,536	-	90,536	91,380
Members' Equity	<u>(64,864)</u>	<u>40,902</u>	<u>(23,962)</u>	<u>(45,060)</u>
Total Liabilities and Members' Equity	<u>\$ 25,672</u>	<u>\$ 40,902</u>	<u>\$ 66,574</u>	<u>\$ 46,320</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, 2018 AND 2017**

	<u>Operating</u>	<u>Replacement Reserve</u>	<u>Totals</u>	
			<u>2018</u>	<u>2017</u>
Revenues:				
Dues for common expenses	\$ 115,980	\$ -	\$ 115,980	\$ 115,980
Assessment	14,284	-	14,284	75
Interest income	-	92	92	249
Late fee income	120	-	120	-
Miscellaneous income	12	-	12	36
	<u>130,396</u>	<u>92</u>	<u>130,488</u>	<u>116,340</u>
Expenses:				
Utilities - electric	2,670	-	2,670	3,367
Utilities - water and sewer	17,729	-	17,729	17,661
Bad Debt Expense	147	-	147	276
Bank Service Charges	12	-	12	36
Repairs and maintenance	26,551	-	26,551	136,571
Grounds maintenance	22,487	-	22,487	13,529
Dumpster rental	1,157	-	1,157	1,157
Management fees	7,716	-	7,716	7,575
Security and fire alarm	4,376	-	4,376	4,533
Insurance	15,561	-	15,561	14,945
Interest expense	3,602	-	3,602	3,641
Professional fees	3,049	-	3,049	2,667
Taxes and licenses	190	-	190	27
Office expenses	268	-	268	223
Pest control	3,875	-	3,875	1,778
	<u>109,390</u>	<u>-</u>	<u>109,390</u>	<u>207,986</u>
Excess (Deficiency) of Revenues over Expenses	21,006	92	21,098	(91,646)
Members' Equity, beginning of year	(65,870)	20,810	(45,060)	46,586
Transfer between funds	<u>(20,000)</u>	<u>20,000</u>	<u>-</u>	<u>-</u>
Members' Equity, end of year	<u>\$ (64,864)</u>	<u>\$ 40,902</u>	<u>\$ (23,962)</u>	<u>\$ (45,060)</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, 2018 AND 2017**

	<u>Operating</u>	<u>Replacement Reserve</u>	<u>Totals</u>	
			<u>2018</u>	<u>2017</u>
Increase (Decrease) in Cash:				
Cash Flows from Operating Activities:				
Cash received from association members	\$ 127,454	\$ -	\$ 127,454	\$ 113,529
Cash paid to suppliers	(94,228)	-	(94,228)	(204,345)
Interest paid	(3,602)	-	(3,602)	(3,641)
Interest received	-	92	92	249
Other income	12	-	12	36
	<u>29,636</u>	<u>92</u>	<u>29,728</u>	<u>(94,172)</u>
Net Cash Provided (Used) by Operating Activities				
Cash Flows from Financing Activities:				
Interfund transfers	(20,000)	20,000	-	-
Proceeds from issuance of long-term debt	-	-	-	100,000
Principal payments on debt obligations	(12,986)	-	(12,986)	(32,277)
	<u>(32,986)</u>	<u>20,000</u>	<u>(12,986)</u>	<u>67,723</u>
Net Cash Provided (Used) by Financing Activities				
Net Cash Increase (Decrease) for Year	(3,350)	20,092	16,742	(26,449)
Cash, beginning of year	<u>23,292</u>	<u>20,810</u>	<u>44,102</u>	<u>70,549</u>
Cash, end of year	<u>\$ 19,944</u>	<u>\$ 40,902</u>	<u>\$ 60,844</u>	<u>\$ 44,100</u>
Reconciliation of Excess (Deficiency) of Revenue over Expenses to Net Cash Provided (Used) by Operating Activities:				
Excess (deficiency) of revenue over expenses	\$ 21,006	\$ 92	\$ 21,098	\$ (91,646)
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided (used) by operating activities:				
(Increase) decrease in assessments receivable	(3,510)	-	(3,510)	(729)
Increase (decrease) in accounts payable	11,559	-	11,559	-
Increase (decrease) in condominium fees received in advance	581	-	581	(1,797)
	<u>581</u>	<u>-</u>	<u>581</u>	<u>(1,797)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 29,636</u>	<u>\$ 92</u>	<u>\$ 29,728</u>	<u>\$ (94,172)</u>

See accompanying notes to financial statements

**RICHMOND SQUARE OFFICE TOWNHOUSE CONDOMINIUMS
COUNCIL OF CO-OWNERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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, 2018 and 2017 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, 2017 and 2016, the Council had assessments receivable of \$5,728 and \$2,218, 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, 2018 AND 2017**

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, 2018 and 2017 was \$0 and \$0, respectively. The Council's open audit periods are 2014-2017.

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. In prior years, the Council has funded the replacement reserves fund from excess operating fund assessments. The Council transferred \$20,000 and \$0 from the operating fund to the replacement reserve fund during the years June 30, 2018 and 2017, 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 \$40,902 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, 2018 AND 2017**

NOTE 4 – NOTE PAYABLE

The Council entered into a promissory note with BB&T on August 9, 2016, for \$100,000. The note has an interest rate of 4.25%. The monthly payment amount is \$1,382 with a maturity date of August 15, 2023. The Council has pledged their monthly assessments as security. The balance of the note payable as of June 30, 2018 and 2017 was \$76,506 and \$89,490, respectively. Maturities are as follow:

Year Ending June 30,	
2019	\$ 13,597
2020	14,187
2021	14,801
2022	15,443
2023	16,112
Thereafter	<u>2,366</u>
	<u>\$ 76,506</u>

NOTE 5 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 26, 2018, which is the date the financial statements were available to be issued.

**RICHMOND SQUARE OFFICE TOWNHOUSE CONDOMINIUMS
COUNCIL OF CO-OWNERS, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS (UNAUDITED)
JUNE 30, 2018**

The Council's management in June 2018, 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 2018.

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, 2018</u>
Parking Lot	July 2017	14	\$ 95,000	\$ 10,902
Painting	August 2015	1 - 4	10,000	10,000
Roofing	July 2002	14	<u>130,000</u>	<u>20,000</u>
			<u>\$ 235,000</u>	<u>\$ 40,902</u>