

THE PINES CONDOMINIUM
COUNCIL OF CO-OWNERS, INC.

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
AS OF
DECEMBER 31, 2019

THE PINES CONDOMINIUM COUNCIL OF CO-OWNERS, INC.

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STUEDLE SPEARS & COMPANY PSC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Pines Condominium
Council of Co-Owners, Inc.

We have audited the accompanying financial statements of The Pines Condominium Council of Co-Owners, Inc., which comprise the balance sheet as of December 31, 2019, and the related statements of revenues and expenses, changes in members' 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 The Pines Condominium Council of Co-Owners, Inc., as of December 31, 2019 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 Supplementary Information on Future Major Repairs and Replacements on pages 12 through 14 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, 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 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.

Stuedle Spears & Company PSC

STUEDLE SPEARS & COMPANY PSC
Louisville, KY

June 8, 2020

THE PINES CONDOMINIUM COUNCIL OF CO-OWNERS, INC.
BALANCE SHEET
AS OF DECEMBER 31, 2019

	2019		
	Operating Fund	Reserve Fund	Total
<u>ASSETS</u>			
Cash-Operating Fund	\$ 10,301	\$ -	\$ 10,301
Cash-Reserve Fund	-	49,797	49,797
Certificates of Deposit	81,337	-	81,337
Account Receivable	17,100	-	17,100
	108,738	49,797	158,535
 <u>LIABILITIES & FUND BALANCES</u>			
Liabilities:			
Accounts payable	-	-	-
Assessments received in advance- operating fund	3,045	-	3,045
Contract liabilities (Assessments received in advance- replacement fund)	-	49,797	49,797
	3,045	49,797	52,842
 Fund Balances			
Operating Fund	105,693	-	105,693
Reserve Fund	-	-	-
	105,693	-	105,693
 Total Liabilities and Fund Balances	\$ 108,738	\$ 49,797	\$ 158,535

See independent auditors' report and notes to the financial statements

THE PINES CONDOMINIUM COUNCIL OF CO-OWNERS, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019		
	Operating Fund	Reserve Fund	Total
REVENUES			
Condominium Fees	\$ 130,008	\$ 12,524	\$ 142,532
Elevator Fee	13,248	-	13,248
Elevator Fee- Special Assment	8,352	-	8,352
Renters Fee	7,000	-	7,000
Other Income	1,318	-	1,318
Late Charges	1,012	-	1,012
Interest Income	1,593	238	1,831
Total Revenues	162,531	12,762	175,293
EXPENSES			
Water	34,209	-	34,209
Insurance	25,724	-	25,724
Grounds Maint	19,456	-	19,456
Elevator Maintenance	13,657	-	13,657
Electricity	11,076	-	11,076
Management Fees	10,368	-	10,368
Cleaning	8,059	-	8,059
Building Repair/Maintenance	7,611	-	7,611
Project Reserves	-	6,462	6,462
Repairs Reserves	-	6,300	6,300
Pool Maintenance	5,905	-	5,905
Telephone Service	4,670	-	4,670
Trash Collection	4,280	-	4,280
Painting	3,750	-	3,750
Termite Control	1,575	-	1,575
Other Expenses	1,038	-	1,038
Plumbing Repair	857	-	857
Snow Removal	740	-	740
Postage Duplication	556	-	556
Professional Fees	440	-	440
Maintenance Supplies	335	-	335
Taxes Licenses	300	-	300
Total Expenses	154,606	12,762	167,368
Excess of Revenues Over Expenses	7,925	-	7,925
Fund Balances-Beginning of Year	97,769	-	97,769
Fund Balances- End of Year	\$ 105,694	\$ -	\$ 105,694

See independent auditors' report and notes to the financial statements

THE PINES CONDOMINIUM COUNCIL OF CO-OWNERS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019		
	Operating Fund	Reserve Fund	Total
Cash Flows from Operating Activities			
Excess of Revenues Over Expenses	\$ 7,925	\$ -	\$ 7,925
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Decrease (Increase) in Accounts Receivable	(6,159)	-	(6,159)
Increase (Decrease) in Accounts Payable	-	-	-
Increase (Decrease) in Assessments received in advance-operating fund	516	-	516
Increase (Decrease) in Contract liabilities (assessments received in advance- replacement fund)	-	12,195	12,195
Net Cash Provided (Used) By Operating Activities	2,282	12,195	14,477
Cash Flows from Investing Activities			
Interest reinvested	(1,573)	-	(1,573)
Net Cash Provided (Used) By Investing Activities	(1,573)	-	(1,573)
Net Increase (Decrease) in Cash	709	12,195	12,904
Cash, Beginning of Year	9,592	37,602	47,194
Cash, End of Year	\$ 10,301	\$ 49,797	\$ 60,098
Supplemental Disclosures			
Income taxes paid	\$ -	\$ -	\$ -
Interest paid	\$ -	\$ -	\$ -

See independent auditors' report and notes to the financial statements

THE PINES CONDOMINIUM COUNCIL OF CO-OWNERS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE A- NATURE OF ORGANIZATION

The Pines Condominium Council of Co-Owners, Inc. is a 72-unit condominium association formed in 1989. The Association was incorporated as a non-stock corporation under Kentucky law to manage condominium property known as The Pines Condominium Council of Co-Owners, Inc.

NOTE B- DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through June 8, 2020, the date that the financial statements were available to be issued.

NOTE C- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The accounting records of the corporation are maintained using the accrual method of accounting. Under this method, revenues and expenses are identified with specific periods of time and are recorded as incurred, along with assets acquired, without regard to the date of receipt or payment of cash.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund- This fund is used to account for financial resources available for the general operations of the Association at the discretion of the Board of Directors.

Reserve Fund- This fund is used to accumulate financial resources designated for future major repairs and replacements and other contingencies. Disbursements from this fund generally may be made only for designated purposes and with the Board of Director's approval.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and other highly liquid investments with a maturity date of three months or less.

See independent auditors' report

THE PINES CONDOMINIUM COUNCIL OF CO-OWNERS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE C- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of 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.

Assessments Receivable from Owners and Allowance for Doubtful Accounts

Accounts receivable from owners are reported net of any allowance for doubtful accounts. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are ninety days or more delinquent. The Association provides for doubtful accounts based upon experience and analysis of individual accounts. Since management considered all receivables to be collectible at December 31, 2019, no allowance was established.

Property and Equipment

The Association owns certain buildings and common areas, which were donated to the community by the developer. All expenditures for improvements have previously been expensed. The Association has not set a value for financial reporting purposes on the donated property.

Furniture, equipment and improvements are stated at cost. Depreciation is computed on straight-line and accelerated methods over the estimated useful lives of the assets. Real property acquired by the Association is capitalized when it is used to generate significant cash flows from members on the basis of usage or from nonmembers or can be disposed of for cash with the Association retaining the proceeds. Real property acquired by the Association that does not meet these guidelines is not capitalized, and accordingly, replacements, major repairs, and improvements to this property are not capitalized; instead, they are reported as expenses. Real property that has not been capitalized includes, parking areas, sidewalks, green areas, entrance ways, roofs, and exterior walls.

Certificate of Deposit

The Association had three certificates of deposit for the year ended December 31, 2019. The certificates had a value of \$81,337. Due to the entity's expectation of keeping the certificates of deposit greater than 90 days, they have been excluded from cash and cash equivalents.

THE PINES CONDOMINIUM COUNCIL OF CO-OWNERS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE C- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Regular and special assessments are recognized as revenue during the period for which they are assessed. Assessments paid in advance are reported as deferred revenue on the balance sheet.

Owners' Assessments

The Association's by-laws require that the Board of Directors adopt a budget each year for common expenses. The budget is determined by the Board of Directors. Assessments are made against the unit owners as specified in the annual budget. Assessments include amounts for normal operating expenses and to fund future major repairs and replacements

Contract Liabilities (Assessments received in advance-replacement fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance-replacement fund) are recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The balances of contract liabilities (assessments received in advance-replacement fund) as of the beginning and end of the year are \$49,797 and \$37,602, respectively

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash, accounts receivable, and accounts payable approximate their fair value due to the short term maturities of these instruments. The carrying value of certificate of deposit approximate their fair value based upon current market rates and conditions.

NOTE D- INCOME TAXES

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2019. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government, at 4.0% to 6.0% by the State of Kentucky, and 2.2% by Louisville Metro Commission.

The Association's federal, state, and local income tax returns are generally subject to examination by taxing authorities for three years after the returns are filed. The Association's federal, state, and local income tax returns for 2019, 2018, and 2017 remain open to examination.

See independent auditors' report

THE PINES CONDOMINIUM COUNCIL OF CO-OWNERS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE E-FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Association adopted the requirements of new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liabilities related to the replacement fund, as previously described.

The adoption of the new revenue recognition guidance resulted in the following change to fund balance as of January 1, 2019:

Fund balance, as previously reported, at January 1, 2019	\$	135,371
Adjustment		<u>(37,602)</u>
Fund balance, as adjusted, at January 1, 2019	\$	97,769

The effect of the adoption is a decrease in 2019 assessments by \$38,814 and a recording of a contract liability (assessments received in advance-replacement fund) at December 31, 2019, of \$232,846. The Association has no customer contract modifications that had an effect on the Association's transition to the new guidance.

The modified retrospective method of transition requires us to disclose the effect of applying the new guidance on each item included in our 2019 financial statements. Following are the line items from our balance sheet as of December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance:

	<u>Amounts That Would Have Been Reported</u>	<u>Effects of Applying New Guidance</u>	<u>As Reported</u>
Liabilities:			
Contract liabilities (Assessments received in advance – replacement reserve)	\$ -	\$ 49,797	\$ 49,797
Total liabilities	<u>3,045</u>	<u>49,797</u>	<u>52,842</u>
Fund Balance:			
Ending fund balances	155,490	(49,797)	105,693

See independent auditors' report

THE PINES CONDOMINIUM COUNCIL OF CO-OWNERS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE E-FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The following are the line items from the statement of revenues, expenses, and changes in fund balances and the statement of cash flows for the year ended December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the amounts reported under the new guidance:

	Amounts That Would Have Been Reported	Effects of Applying New Guidance	<u>As Reported</u>
Revenue:			
Regular assessments	\$ 154,728	\$ (24,720)	\$ 130,008
Excess of revenues over expenses	32,645	(24,720)	7,925
Cash Flows:			
Excess of revenues over expenses	32,645	(24,720)	7,925
Increase in contract liabilities (Assessments received in advance – replacement reserve)	-	12,195	12,195

NOTE F- FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association’s governing documents require funds to be accumulated for future major repairs and replacements. The entity maintains a reserve account for this purpose. At December 31, 2019, the Association had \$49,797 set aside for future major repairs and replacements.

The Association has made a study to determine the remaining useful lives and expected replacement cost of the components of common property. If additional funds are needed, the Association has the right, subject to approval, to increase regular assessments, pass special assessments, or delay major repairs until funds are available.

SUPPLEMENTARY INFORMATION

THE PINES CONDOMINIUM COUNCIL OF CO-OWNERS, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS (UNAUDITED)
DECEMBER 31, 2019

An independent engineer conducted a study in August 2018 to estimate the remaining useful lives and the replacement cost of the components of common property. Replacement cost were based on the estimated cost to repair or replace the common property components at the end of their useful lives assuming an annual inflation rate of 3.0%.

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

Description	Estimated Useful Life (Years)	+/-	Estimated Remaining Life (Years)	Estimated Current Replacement Cost	Fully Funded Reserves	Assigned Reserves
Asphalt Parking Areas-Overlay	20	+20	11	50,826	36,702	14,915
Asphalt Parking Areas-Repair	7	+28	6	10,273	8,491	8,491
Asphalt Streets- Seal Coat	5	+26	2	5,217	4,876	4,876
Concrete- Curb	5	+31	7	481	386	386
Concrete- Sidewalk	5	+32	8	1,055	824	824
Total for Category				67,852	51,279	29,492
Chimney Caps	23	0	16	11,250	3,424	-
Roofs- Car Port Shingle	23	+1	17	49,218	13,739	-
Roofs- Car Port Gutters	23	+1	17	15,406	4,301	-
Roofs- Clubhouse Shingle	23	+1	17	14,240	3,975	-
Roofs- Clubhouse Gutters	23	+1	17	2,679	748	-
Roofs- Garages Shingle	23	+1	17	15,074	4,208	-
Roofs- Garages Gutters	23	+1	17	5,123	1,430	-
Roofs- Units Shingle	23	0	16	136,392	39,760	-
Roofs- Units Gutters	23	0	16	29,225	8,519	-
Total for Category				278,607	80,104	-
Clubhouse- Appliances	20	+19	10	2,190	1,622	1,622
Clubhouse- Fitness Equipment	10	+25	6	-	-	-
Clubhouse- Flooring Carpeting	20	+19	10	5,342	3,958	3,958
Clubhouse- Flooring Tile	30	+9	10	5,280	3,912	3,912
Clubhouse- Flooring Marble	50	0	21	2,678	1,544	-
Clubhouse- HVAC	20	+11	2	4,875	4,556	4,556
Clubhouse- Interior	10	+26	7	8,500	6,828	6,828
Clubhouse- Interior Lighting	30	+10	11	-	-	-
Clubhouse- Restrooms	30	+9	10	3,000	2,222	2,222
Total for Category				31,865	24,642	23,098

See independent auditors' report

THE PINES CONDOMINIUM COUNCIL OF CO-OWNERS, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS (CONTINUED)
AND REPLACEMENTS (UNAUDITED)
DECEMBER 31, 2019

Description	Estimated Useful Life (Years)	+/-	Estimated Remaining Life (Years)	Estimated Current Replacement Cost	Fully Funded Reserves	Assigned Reserves
Clubhouse- Pool	15	+23	9	8,820	6,708	6,708
Clubhouse- Pool Deck	10	+28	9	1,394	1,060	1,060
Clubhouse- Pool Fencing	25	+6	2	7,274	6,798	6,798
Clubhouse- Pool Mechanical	15	+20	6	-	-	-
Clubhouse- Replacement	50	0	21	29,400	16,948	-
Total for Category				46,888	31,514	14,566
Entry Halls- Elevator	15	+20	6	-	-	-
Entry Halls- Interior Lighting	35	+5	11	32,190	23,245	-
Entry Halls- Mailboxes	40	0	11	6,300	4,549	-
Entry Halls- Stairways	60	0	31	-	-	-
Residences- Ext Doors & Wind 1	40	0	11	30,838	22,268	-
Residences- Ext Doors & Wind 2	40	+1	12	30,838	21,719	-
Residences- Ext Doors & Wind 3	40	+2	13	30,838	21,197	-
Residences- Ext Doors & Wind 4	40	+3	14	30,838	20,699	-
Residences- Ext Doors & Wind 5	40	+4	15	30,838	20,224	-
Residences- Ext Doors & Wind 6	40	+5	16	30,838	19,771	-
Residences- Ext Lighting	25	0	23	7,865	507	-
Total for Category				231,383	154,179	-
Back Flow Valve	50	-20	1	8,500	8,213	8,213
Carport/Garage- Ext Lighting	25	+10	6	5,500	4,546	4,546
Carport/Garage- Structural	10	+30	11	7,500	5,416	-
Entry Monument	45	0	16	14,500	9,296	-
Entry System	25	+9	5	9,000	7,660	7,660
Garage Doors	25	+19	15	18,200	11,936	-
Landscaping	5	+25	1	2,500	2,417	2,417
Masonry	7	+27	5	14,014	11,953	11,953
Painting	7	0	4	-	-	-
Total for Category				79,714	61,437	34,789
Fence- Chain Link	40	0	11	14,732	10,638	-
Fence- Wood Privacy North	30	0	29	3,186	63	-
Fence- Wood Privacy South	30	+2	3	13,113	11,867	11,867
Total for Category				31,031	22,568	11,867

See independent auditors' report

THE PINES CONDOMINIUM COUNCIL OF CO-OWNERS, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS (CONTINUED)
AND REPLACEMENTS (UNAUDITED)
DECEMBER 31, 2019

Description	Estimated Useful Life (Years)	+/-	Estimated Remaining Life (Years)	Estimated Current Replacement Cost	Fully Funded Reserves	Assigned Reserves
Reserve Study- Update Fee	4	0	4	1,750	-	-
Total for Category				1,750	-	-
Total Asset Summary				769,090	425,723	113,812
Contingency at 3%					12,772	3,414
Grand Total					438,495	117,226
Percent Fully Funded						27%

See independent auditors' report