

LOMA VISTA WEST TOWNHOUSES, INC.

Financial Statements

March 31, 2016

(With Independent
Auditor's Report)

LOMA VISTA WEST TOWNHOUSES, INC.

FINANCIAL STATEMENTS

MARCH 31, 2016

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Independent Auditor's Report

To the Board of Directors
Loma Vista West Townhouses, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Loma Vista West Townhouses, Inc., which comprise the statement of financial position as of March 31, 2016, and the related statements of activities, net assets 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 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 Loma Vista West Townhouses, Inc. as of March 31, 2016, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report - Continued

Opinion – Continued

Loma Vista West Townhouses, Inc. has not estimated the remaining lives and replacements costs of the common property and, therefore, has not presented supplementary information on future major repairs and replacements that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 13 and 14 is presented for purposes of additional analysis, and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Wieland & Company, Inc.

Batavia, Illinois
May 20, 2016

LOMA VISTA WEST TOWNHOUSES, INC.

STATEMENT OF FINANCIAL POSITION

March 31, 2016

ASSETS

INVESTMENT IN REAL ESTATE: (Notes 2 and 5)

Land and Improvements	\$ 901,028
Buildings and Improvements	8,740,432
Building Equipment, Portable	368,640
Motor Vehicles	36,956
Less: Accumulated Depreciation	(6,508,954)
<u>NET INVESTMENT IN REAL ESTATE</u>	<u>3,538,102</u>

OTHER ASSETS:

Cash (Note 3)	72,378
Member Accounts Receivable (Note 2)	32,244
Less Allowance for Doubtful Accounts	(18,500)
Net Member Accounts Receivable	13,744
Replacement Reserve (Note 6)	63,151
Tax and Insurance Escrows (Note 6)	93,863
Debt Service Reserve (Note 6)	153,114
General Operating Reserve (Note 6)	32,446
Prepaid Expenses	70,038
Capitalized Costs (Net) (Note 8)	131,013
<u>TOTAL OTHER ASSETS</u>	<u>629,747</u>

TOTAL ASSETS \$ **4,167,849**

LIABILITIES AND NET ASSETS

LIABILITIES:

First Mortgage Payable (Note 5)	\$ 3,370,519
Accounts Payable - Trade	120,554
Accrued Payroll	16,738
Prepaid Revenue	24,158
Accrued Mortgage Interest - First (Note 5)	20,083
Accrued Management Fees (Note 8)	7,190
Accrued Real Estate Tax Expense	14,050
<u>TOTAL LIABILITIES</u>	<u>3,573,292</u>

NET ASSETS:

Members' Equity	594,557
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TOTAL LIABILITIES AND NET ASSETS \$ **4,167,849**

See Accompanying Notes to Financial Statements.

LOMA VISTA WEST TOWNHOUSES , INC.

STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2016

REVENUE

Gross Potential Carrying Charges	\$ 1,697,184
Less: Concessions	(13,711)
Net Residential Carrying Charges	<u>1,683,473</u>
Resident Charges	8,976
Interest Income	434
Other Income	69,281
<u>TOTAL REVENUE</u>	<u>1,762,164</u>

OPERATING EXPENSES (Schedule I)

Administrative	535,599
Utilities	309,003
Operating and Maintenance	472,669
Taxes and Insurance	224,545
<u>TOTAL OPERATING EXPENSES</u>	<u>1,541,816</u>

OPERATING INCOME BEFORE
FINANCIAL EXPENSES 220,348

FINANCIAL EXPENSES

Interest - First Mortgage	241,504
<u>TOTAL FINANCIAL EXPENSES</u>	<u>241,504</u>

DECREASE IN NET ASSETS BEFORE
DEPRECIATION AND AMORTIZATION (21,156)

DEPRECIATION 201,069

AMORTIZATION 6,192

DECREASE IN NET ASSETS \$ (228,417)

See Accompanying Notes to Financial Statements.

LOMA VISTA WEST TOWNHOUSES, INC.

STATEMENT OF NET ASSETS

YEAR ENDED MARCH 31, 2016

	Accumulated Surplus (Deficit)	Outstanding Memberships	Amortized Mortgage	Deposit Reserves	Total Net Assets
<u>BALANCES, MARCH 31, 2015</u>	(4,210,317)	87,624	4,720,275	225,392	822,974
<u>DECREASE IN NET ASSETS</u>	(228,417)	–	–	–	(228,417)
<u>NET TRANSFERS TO RESERVES</u>	(79,989)	–	56,670	23,319	–
<u>BALANCES, MARCH 31, 2016</u> \$	<u>(4,518,723)</u> \$	<u>87,624</u> \$	<u>4,776,945</u> \$	<u>248,711</u> \$	<u>594,557</u>

See Accompanying Notes to Financial Statements.

LOMA VISTA WEST TOWNHOUSES, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2015

CASH FLOW FROM OPERATING ACTIVITIES:

Carrying Charges and Rental Receipts	\$ 1,464,577
Interest Receipts	434
Other Receipts	78,257
<u>TOTAL OPERATING RECEIPTS</u>	<u>1,543,268</u>
Administrative	72,411
Management Fees	77,978
Operating and Maintenance	237,635
Salaries and Wages	253,413
Utilities	259,179
Real Estate Taxes	54,574
Property Insurance	102,964
Other Taxes and Insurance	92,504
Mortgage Interest	243,211
<u>TOTAL OPERATING DISBURSEMENTS</u>	<u>1,393,869</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	149,399

CASH FLOWS FROM INVESTING ACTIVITIES:

Increase in:	
Tax and Insurance Escrows	(15,751)
Replacement Reserve	(5,251)
Debt Service Reserve	(199)
General Operating Reserve	(17,869)
<u>NET CASH USED IN INVESTING ACTIVITIES</u>	(39,070)

CASH FLOWS FROM FINANCING ACTIVITIES:

Principal Payments on First Mortgage	(56,670)
<u>NET CASH USED IN FINANCING ACTIVITIES</u>	(56,670)

<u>NET INCREASE IN CASH</u>	53,659
<u>CASH AT BEGINNING OF YEAR</u>	<u>18,719</u>
<u>CASH AT END OF YEAR</u>	<u>\$ 72,378</u>

See Accompanying Notes to Financial Statements.

LOMA VISTA WEST TOWNHOUSES , INC.

STATEMENT OF CASH FLOWS - CONTINUED

YEAR ENDED MARCH 31, 2016

CASH FLOW FROM OPERATING ACTIVITIES:

Decrease in Net Assets	\$ (228,417)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided (Used) By Operating Activities:	
Depreciation	201,069
Amortization	6,192
Bad Debt Expense	309,577
Increase in Operating Assets:	
Member Accounts Receivable	(223,950)
Prepaid Expenses	(27,589)
Increase (Decrease) in Operating Liabilities:	
Accounts Payable - Trade	106,027
Accrued Payroll	(4,764)
Prepaid Revenue	5,055
Accrued Mortgage Interest	(1,707)
Accrued Management Fees	7,190
Accrued Real Estate Tax Expense	716

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 149,399

(Continued)

LOMA VISTA WEST TOWNHOUSES, INC.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

NOTE 1 - ORGANIZATION

Loma Vista West Townhouses, Inc. (the Cooperative) is a housing cooperative that was organized on June 11, 1965 under the laws of the State of Missouri. The Cooperative owns the land and buildings known as Loma Vista West Townhomes consisting of 268 units in Kansas City, Missouri. The primary purpose of the Cooperative is to provide housing on a cooperative basis to its members and to manage its operations and maintain the real estate and its improvements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Cooperative's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

BASIS OF ACCOUNTING

The accompanying financial statements report the assets, liabilities, revenues and expenses of the Cooperative using the accrual basis of accounting.

CAPITALIZATION AND DEPRECIATION

Property and equipment are recorded at cost and capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation.

Depreciation is provided for using the straight-line method in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. The estimated service life of the assets for depreciation purposes may be different than their actual economic useful lives.

	<u>Estimated Life</u>
Land and Improvements	15 years
Building and Improvements	5 – 39 years
Building Equipment, portable	5 – 10 years
Motor Vehicles	5 – 7 years

IMPAIRMENT REVIEWS

The Cooperative reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the property including any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized through March 31, 2016.

LOMA VISTA WEST TOWNHOUSES, INC.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

March 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

REVENUE

Tenant-members are subject to monthly assessments (carrying charges) to fund operating expenses, future capital acquisitions, and major repairs and replacements. Member receivables at the balance sheet date represent monthly carrying charges due from the members. Carrying charges are based on an annual budget determined by the Board of Directors. Members are billed monthly based on their respective share. The allowance method is used to estimate uncollectible member receivables. Advance receipts of carrying charges are deferred or classified as liabilities until earned. The Cooperative retains excess operating funds, if any, at the end of the operating year for use in funding future operating periods.

ACCOUNTS RECEIVABLE

Accounts receivable generally consist of amounts due from member/tenants and are stated at unpaid balances. Past due receivables are written off and charged to operations in the period the balances are deemed to be uncollectible using the allowance method.

ADVERTISING AND MARKETING COSTS

Advertising and marketing costs are expensed as incurred. Advertising expense was \$2,457 for the year ended March 31, 2016.

AMORTIZATION

The Cooperative incurred costs relating to a mortgage refinance that closed during 2008. The costs are being amortized over the 30-year term of the related financing beginning upon the loan closing date.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

MANAGEMENT REVIEW

Management has evaluated subsequent events to May 20, 2016, the date on which the financial statements were available to be issued.

LOMA VISTA WEST TOWNHOUSES, INC.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

March 31, 2016

NOTE 3 - CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Cooperative considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Cooperative maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Cooperative has not experienced any losses in such accounts.

NOTE 4 - INCOME TAXES

The Cooperative is a Subchapter T qualified cooperative and its transactions are all patronage related. Generally, the amount of carrying charges received from tenant-members for amortization of mortgage principal, capital improvements and net additions to the related reserve accounts are treated as contributions to capital for income tax reporting purposes and, accordingly, are not subject to income tax. The Cooperative has a net operating loss carryover of approximately \$2.49 million at March 31, 2016. Portions of the net operating loss carryover expire annually. A deferred income tax asset of approximately \$553,000 has been reserved in full due to the uncertainty of its realization.

The financial statement effects of a tax position taken or expected to be taken are recognized when it is more likely than not, based on technical merits, that the position will be sustained upon examination. At March 31, 2016, the Cooperative had no uncertain tax positions that qualify for recognition or disclosure.

NOTE 5 - MORTGAGES PAYABLE

First mortgage note originated on November 21, 2008 and is held by Arbor Commercial Mortgage, LLC in the original amount of \$3,700,000. The note bears interest at an annual rate of 7.15% and is due in monthly installments of principal and interest totaling \$24,990 to maturity in January 1, 2039, at which date the balance of unpaid interest and principal is due. A first mortgage on the property is pledged as collateral. Accrued interest and interest expense related to the loan were \$20,083 and \$241,504, respectively, as of and for the year ended March 31, 2016.

Future annual principal maturities of the mortgage note are as follows at March 31, 2016:

2017	\$ 60,857
2018	65,354
2019	70,183
2020	75,369
2021	80,938
Thereafter	<u>3,017,818</u>
	<u>\$3,370,519</u>

LOMA VISTA WEST TOWNHOUSES, INC.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

March 31, 2016

NOTE 6 - RESTRICTED ESCROW DEPOSITS AND RESERVES

Under the mortgage agreement, the Cooperative is required to make monthly escrow deposits with the mortgagee for estimated amounts due for real estate taxes and property insurance. The Cooperative is also required to fund a replacement reserve presently in the amount of \$4,171 per month, establish and maintain a \$149,940 balance in a debt service reserve at all times, and establish a general operating reserve. The following shows the activity in such accounts during the year ended March 31, 2016:

	Balance April 1, <u>2015</u>	Additions and Interest	Withdrawals and <u>Transfers</u>	Balance March 31, <u>2016</u>
Tax and Insurance Escrows	\$ 78,112	\$ 172,961	\$ (157,210)	\$ 93,863
Replacement Reserve	57,900	50,251	(45,000)	63,151
Debt Service Reserve	152,915	199	-	153,114
General Operating Reserve	<u>14,577</u>	<u>17,869</u>	<u>-</u>	<u>32,446</u>
	<u>\$ 303,504</u>	<u>\$ 241,280</u>	<u>\$ (202,210)</u>	<u>\$ 342,574</u>

NOTE 7 - CAPITALIZED COSTS

The costs incurred to obtain financing of the project Cooperative have been capitalized and are being amortized as described below:

	<u>Amortization Period</u>	
Financing Cost – First Mortgage	30.0 years	\$ 185,760
Less Accumulated Amortization		<u>(54,747)</u>
<u>NET CAPITALIZED COSTS</u>		<u>\$ 131,013</u>

Amortization expense for the year ended March 31, 2016 was \$6,192.

NOTE 8 – PROJECT MANAGEMENT FEES

The Cooperative is managed by Tailor Made Property Services, Inc. Fees are determined at 5.25% of member-related collections and totaled \$85,168 for the year ended March 31, 2016. Accrued management fees payable totaled \$7,190 at March 31, 2016.

LOMA VISTA WEST TOWNHOUSES, INC.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

March 31, 2016

NOTE 9 - **CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS**

The Cooperative's sole asset is the housing complex and, consequently, its operations are concentrated in the multifamily real estate market. In addition, the Cooperative operates in a heavily regulated environment. The operations of the Cooperative are subject to acts of Congress and to the administrative directives, rules and regulations of federal, state and local regulatory agencies. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with change.

ACCOMPANYING INFORMATION

LOMA VISTA WEST TOWNHOUSES, INC.

SCHEDULE I - PROJECT OPERATING EXPENSES

YEAR ENDED MARCH 31, 2016

ADMINISTRATIVE EXPENSES

Bad Debts	\$	309,577
Other Renting Expenses		1,863
Advertising		2,457
Office Expenses		39,400
Property Management Fees		85,168
Office Salaries		67,918
Legal		6,867
Accounting		7,200
Miscellaneous		15,149
<u>TOTAL ADMINISTRATIVE EXPENSES</u>	\$	<u>535,599</u>

UTILITIES EXPENSES

Electricity	\$	30,833
Water and Sewer		265,471
Gas		12,699
<u>TOTAL UTILITIES EXPENSES</u>	\$	<u>309,003</u>

OPERATING AND MAINTENANCE EXPENSES

Maintenance Salaries	\$	180,731
Janitorial Contract		8,070
Exterminating		8,046
Security		17,833
Maintenance Supplies and Material		104,244
Snow Removal		1,218
Plumbing		3,184
Structural Repairs		43,323
Grounds		49,954
Other Contracted Maintenance and Repairs		8,980
Garbage and Trash Removal		41,944
Equipment and Vehicle Operation and Maintenance		5,127
Miscellaneous		15
<u>TOTAL OPERATING AND MAINTENANCE EXPENSES</u>	\$	<u>472,669</u>

TAX AND INSURANCE EXPENSES

Payroll Taxes	\$	25,000
Real Estate Taxes		55,290
Property and Liability Insurance		79,332
Workman's Compensation		8,875
Health Insurance and Benefits		51,468
Miscellaneous		4,580
<u>TOTAL TAX AND INSURANCE EXPENSES</u>	\$	<u>224,545</u>

LOMA VISTA WEST TOWNHOUSES , INC.

SCHEDULE II - OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED MARCH 31, 2016

Schedule of Changes in Fixed Assets

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Land and Improvements	\$ 901,028	\$ —	\$ 901,028
Buildings and Improvements	8,740,432	—	8,740,432
Building Equipment, Portable	368,640	—	368,640
Motor Vehicles	36,956	—	36,956
	<u>\$ 10,047,056</u>	<u>\$ —</u>	<u>\$ 10,047,056</u>
Accumulated Depreciation	<u>\$ (6,307,885)</u>	<u>(201,069)</u>	<u>\$ (6,508,954)</u>

Additions

None