

**THE LOFTS AT MILLS MILL
CONDOMINIUM OWNERS ASSOCIATION, INC.**

GREENVILLE, SOUTH CAROLINA

**FINANCIAL STATEMENTS
December 31, 2017**

(With Independent Auditors' Report Thereon)



MARTIN · SMITH

& COMPANY CPAs

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Lofts at Mills Mill Condominium Owners Association, Inc.
Greenville, South Carolina

We have audited the accompanying statement of assets and fund balances (cash basis) of The Lofts at Mills Mill Condominium Owners Association, Inc. ("the Association") as of December 31, 2017, and the related statement of revenue and expenses and changes in fund balances (cash basis) for the year then ended.

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 of 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 assets and fund balances of the Association as of December 31, 2017, and its revenue and expenses and changes in fund balances for the year then ended, on the cash basis of accounting as described in the notes to financial statements.

Basis of Accounting

As described in Note 1 to the financial statements, it is the policy of the Association to prepare its financial statements in accordance with accounting methods used to show cash activity. Consequently, certain revenues and expenses are recognized when paid rather than when income was earned or the expense was incurred. For this reason, the accompanying financial statements are not intended to present results of operations in conformity with generally accepted accounting principles.

Report on Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements 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 or 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.

Martin Smith and Company CPAs PA

April 27, 2018

THE LOFTS AT MILLS MILL CONDOMINIUM OWNERS ASSOCIATION, INC.
GREENVILLE, SOUTH CAROLINA
Statement of Assets and Fund Balances - Cash Basis
December 31, 2017

ASSETS

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 17,225	\$ 291,446	\$ 308,671
Investments	<u>-</u>	<u>127,482</u>	<u>127,482</u>
Total assets	<u>\$ 17,225</u>	<u>\$ 418,928</u>	<u>\$ 436,153</u>

FUND BALANCES

Operating fund	\$ 17,225	\$ -	\$ 17,225
Replacement reserves	<u>-</u>	<u>418,928</u>	<u>418,928</u>
Total fund balances	<u>\$ 17,225</u>	<u>\$ 418,928</u>	<u>\$ 436,153</u>

The notes to the financial statements are an integral part of this statement.

THE LOFTS AT MILLS MILL CONDOMINIUM OWNERS ASSOCIATION, INC.
GREENVILLE, SOUTH CAROLINA
Statement of Revenues and Expenses and Changes in Fund Balances - Cash Basis
For the Year Ended December 31, 2017

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Revenue:			
Member regular assessments (Note 3)	\$ 369,016	\$ -	\$ 369,016
Other income	11,629	-	11,629
Interest	20	2,653	2,673
Total revenues	<u>380,665</u>	<u>2,653</u>	<u>383,318</u>
Expenses:			
Repairs and maintenance	92,474	13,059	105,533
Utilities	77,191	-	77,191
Landscaping and irrigation	39,496	-	39,496
Administrative	33,365	-	33,365
Insurance	23,482	-	23,482
Professional fees	5,263	4,600	9,863
Total expenses	<u>271,271</u>	<u>17,659</u>	<u>288,930</u>
Excess of revenues over expenses	109,394	(15,006)	94,388
Transfer to reserves	(100,463)	100,463	-
Beginning fund balances	<u>8,294</u>	<u>333,471</u>	<u>341,765</u>
Ending fund balances	<u>\$ 17,225</u>	<u>\$ 418,928</u>	<u>\$ 436,153</u>

The notes to the financial statements are an integral part of this statement.

THE LOFTS AT MILLS MILL CONDOMINIUM OWNERS ASSOCIATION, INC.
GREENVILLE, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2017

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Organization

The Lofts at Mills Mill Condominium Owners Association, Inc. (“the Association”) is a condominium association incorporated in South Carolina in 2004 as a not-for-profit corporation for the operation, management, maintenance and control of the common property of the Association. The Association consists of 104 members located in Greenville, South Carolina. These members pay annual dues to maintain the common property.

All policy decisions, including the annual budget and owners’ assessments, are formulated by the Board of Directors. Major decisions are referred to general association membership before action is taken when possible.

b) Basis of Accounting

The Association prepares its financial statements on the basis of cash receipts and disbursements; consequently, certain revenue and the related assets are recognized when received rather than earned, and certain expenses are recognized when paid rather than when the obligation is incurred.

The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the board of directors and property manager. Disbursements from the reserve fund generally may be made only for designated purposes.

Operating Fund – This fund is used to account for the financial resources available for the general operations of the Association.

Reserve Fund – This fund is used to accumulate financial resources designated for future major repair and replacements.

c) Cash and Cash Equivalents

The Association considers all short-term certificates of deposit with an original maturity of three months or less to be cash equivalents.

d) Investments

The Association has certificates of deposit of \$127,482 at December 31, 2017.

e) Recognition of Assets

Common area property, which was conveyed by the developer to the Association, is not recognized in the Association’s financial statements. In accordance with accounting rules established by the American Institute of Certified Public Accountants in its “Audits of Common Interest Realty Associations”, the Association’s policy is not to capitalize common area property, because it is commonly owned by individual owners and its disposition by the Association’s Board is restricted. Accordingly, the swimming pool, sidewalks, retaining walls and fencing, and access roads and parking have not been capitalized. Replacements and improvements to these assets are not recognized as assets because their disposition is restricted.

THE LOFTS AT MILLS MILL CONDOMINIUM OWNERS ASSOCIATION, INC.
GREENVILLE, SOUTH CAROLINA
Notes to Financial Statements, Continued
December 31, 2017

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Interest Earned

The board's policy is to allocate to the reserve fund interest earned on investment accounts relating to the reserve fund.

g) Income Taxes

The Association has the option to file its federal tax return under Internal Revenue Service Code section 528. This section allows condominium associations to pay income tax on their investment earnings only, after a special \$100 deduction. The Association is not taxed on uniform assessments to members and other income received from Association members solely as a function of their membership in the Association. Otherwise, the Regime pays income tax as a regular corporation.

h) Estimates

The presentation 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.

i) Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 27, 2018, the date the financial statements were available to be issued.

2) CONCENTRATIONS OF CREDIT RISK

The Association maintains cash and investment balances in three financial institutions – two in South Carolina and one in California. The balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At December 31, 2017, the Association had uninsured cash or investment balances of \$265.

3) MEMBERS' ASSESSMENTS

The annual budget and assessments of members are determined and approved by the Board of Directors. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

Yearly budgeted assessments to members were \$370,393, of which \$99,000 was designated to the reserve fund.

THE LOFTS AT MILLS MILL CONDOMINIUM OWNERS ASSOCIATION, INC.
GREENVILLE, SOUTH CAROLINA
Notes to Financial Statements, Continued
December 31, 2017

4) FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that all sums collected from assessments be divided into two parts with one part being used for current operations or recurring expenses and the other part being used as a reserve fund. Said reserve funds shall be maintained by the Association for the periodic maintenance, repair, and replacement of improvements to the Common Area and any applicable limited Common Area which the Association may be obligated to maintain.

During the year ended December 31, 2017, the Association engaged an independent engineer to conduct a study to estimate the remaining useful lives and the replacement costs of the common property components. Currently, the board is setting aside reserves to fund future needs. Actual expenditures, however, may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right to increase the assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

SUPPLEMENTARY INFORMATION



MARTIN · SMITH

& COMPANY CPAs

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

Board of Directors
The Lofts at Mills Mill Condominium Owners Association, Inc.
Greenville, South Carolina

The supplementary information on future major repairs and replacements is not a required part of the basic financial statements of The Lofts at Mills Mill Condominium Owners Association, Inc. but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Martin Smith and Company CPAs PA

April 27, 2018

THE LOFTS AT MILLS MILL CONDOMINIUM OWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS (UNAUDITED)
December 31, 2017

An independent engineer conducted a study during the year ending December 31, 2017, to estimate the remaining useful lives and the replacement costs of the components of common community facilities and infrastructure components that require periodic replacement. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have been revised since that date and take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following information is based on the study and presents significant information about the components of common property (amounts are rounded to the nearest thousand dollars):

<u>Components</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Replacement Fund Balance at December 31, 2017</u>
Site	50	\$ 525,000	\$ 32,000
Building, exterior	40	1,020,000	242,000
Building, interior	30	74,000	23,000
Building system	20	431,000	92,000
Recreation	30	202,000	30,000
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TOTALS		\$ <u>2,252,000</u>	\$ <u>419,000</u>