

PERIMETER PARK WEST, INC.

FINANCIAL REPORT

JUNE 30, 2022

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Perimeter Park West, Inc.
Frankfort, Kentucky

Opinion

We have audited the accompanying financial statements of Perimeter Park West, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022 and 2021, the related statements of activities, functional expenses, changes in net assets and cash flows for the fiscal years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Perimeter Park West, Inc. as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Perimeter Park West, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Perimeter Park West, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Perimeter Park West, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Perimeter Park West, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
August 26, 2022

PERIMETER PARK WEST, INC.

STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

| | 2022 | 2021 |
|-----------------------------------|--------------|--------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 972,901 | \$ 1,207,470 |
| Total current assets | 972,901 | 1,207,470 |
| PROPERTY | | |
| Land | 841,000 | 841,000 |
| Building and improvements | 9,457,914 | 9,139,505 |
| | 10,298,914 | 9,980,505 |
| Less accumulated depreciation | (4,792,207) | (4,497,490) |
| Total property | 5,506,707 | 5,483,015 |
| Total assets | \$ 6,479,608 | \$ 6,690,485 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 150,918 | \$ -- |
| Dividends payable | 472,901 | 703,303 |
| Total liabilities | 623,819 | 703,303 |
| NET ASSETS | | |
| Without donor restrictions: | | |
| Common stock | 10,301,102 | 10,557,008 |
| Paid-in-capital | -- | 216,995 |
| Accumulated deficit | (4,445,313) | (4,786,821) |
| Total net assets | 5,855,789 | 5,987,182 |
| Total liabilities and net assets | \$ 6,479,608 | \$ 6,690,485 |

The Notes to Financial Statements are an integral part of these statements.

PERIMETER PARK WEST, INC.

STATEMENTS OF ACTIVITIES
Years Ended June 30, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|---------------------------------------|-------------------|-------------------|
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| REVENUES AND SUPPORT | | |
| Rental income | \$ 961,968 | \$ 1,005,718 |
| Interest income | 3,529 | 1,332 |
| Total revenues and support | <u>965,497</u> | <u>1,007,050</u> |
| EXPENSES | | |
| Program services | 485,460 | 439,158 |
| Management and general | 138,529 | 142,292 |
| Total expenses | <u>623,989</u> | <u>581,450</u> |
| Increase in net assets | <u>\$ 341,508</u> | <u>\$ 425,600</u> |

The Notes to Financial Statements are an integral part of these statements.

PERIMETER PARK WEST, INC

STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2022 and 2021

| | 2022 | | |
|-------------------------------|------------------|---------------------------|------------|
| | Program Services | Management and General | Total |
| Depreciation | \$ 294,717 | \$ -- | \$ 294,717 |
| Repairs and maintenance | 86,815 | -- | 86,815 |
| Management and administrative | -- | 127,529 | 127,529 |
| Janitorial services | 67,936 | -- | 67,936 |
| Insurance | 24,662 | -- | 24,662 |
| Professional fees | -- | 11,000 | 11,000 |
| Miscellaneous | 11,330 | -- | 11,330 |
| Total | \$ 485,460 | \$ 138,529 | \$ 623,989 |

| | 2021 | | |
|-------------------------------|------------------|---------------------------|------------|
| | Program Services | Management and General | Total |
| Depreciation | \$ 279,766 | \$ -- | \$ 279,766 |
| Repairs and maintenance | 58,691 | -- | 58,691 |
| Management and administrative | -- | 130,792 | 130,792 |
| Janitorial services | 65,587 | -- | 65,587 |
| Insurance | 22,453 | -- | 22,453 |
| Professional fees | -- | 11,500 | 11,500 |
| Miscellaneous | 12,661 | -- | 12,661 |
| Total | \$ 439,158 | \$ 142,292 | \$ 581,450 |

The Notes to Financial Statements are an integral part of these statements.

PERIMETER PARK WEST, INC

STATEMENTS OF CHANGES IN NET ASSETS
Years Ended June 30, 2022 and 2021

| | <u>Common Stock</u> | <u>Paid-In Capital</u> | <u>Accumulated Deficit</u> | <u>Total</u> |
|-------------------------|----------------------|------------------------|--------------------------------|---------------------|
| Balances, July 1, 2020 | \$ 10,557,008 | \$ 920,298 | \$ (5,212,421) | \$ 6,264,885 |
| Increase in net assets | -- | -- | 425,600 | 425,600 |
| Dividends | -- | (703,303) | -- | (703,303) |
| Balances, June 30, 2021 | 10,557,008 | 216,995 | (4,786,821) | 5,987,182 |
| Increase in net assets | -- | -- | 341,508 | 341,508 |
| Dividends | (255,906) | (216,995) | -- | (472,901) |
| Balances, June 30, 2022 | <u>\$ 10,301,102</u> | <u>\$ --</u> | <u>\$ (4,445,313)</u> | <u>\$ 5,855,789</u> |

The Notes to Financial Statements are an integral part of these statements.

PERIMETER PARK WEST, INC

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2022 and 2021

| | 2022 | 2021 |
|--|------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase in net assets | \$ 341,508 | \$ 425,600 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation | 294,717 | 279,766 |
| Net cash provided by operating activities | 636,225 | 705,366 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (167,491) | (230,393) |
| Net cash (used in) investing activities | (167,491) | (230,393) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividends paid | (703,303) | -- |
| Net cash (used in) financing activities | (703,303) | -- |
| Net increase (decrease) in cash | (234,569) | 474,973 |
| Cash and cash equivalents: | | |
| Beginning of year | 1,207,470 | 732,497 |
| End of year | \$ 972,901 | \$ 1,207,470 |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Acquisition of property and equipment through accounts payable | \$ 150,918 | \$ -- |

The Notes to Financial Statements are an integral part of these statements.

PERIMETER PARK WEST, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of business

Perimeter Park West, Inc. (the Corporation) was created in October 1998 as a tax-exempt organization under Section 501(c)(25) of the Internal Revenue Code of 1986, to acquire and hold title to real property, and to collect income from such property, and to remit all excess income from such property as dividends to one or more shareholders.

Kentucky Public Pension Authority (KPPA) is the statutory (Kentucky Revised Statute 61) administrative agency for the Corporation and is a component unit of the Commonwealth of Kentucky for financial reporting purposes. The Corporation is governed by a three-member board selected by shareholders. Although it is legally separate from KPPA, the Corporation is reported as if it were part of KPPA, because its sole ownership is Kentucky Retirement Systems (KRS) and therefore by unitization is owned by Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS) and State Police Employees Retirement System (SPRS) to function as a real estate holding company for the properties owned by the plans administered by KPPA.

Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash

The Corporation maintains cash in bank accounts, which at times may exceed the federally insured limit. The Corporation has not experienced any losses on such accounts. Management believes that the Corporation is not exposed to any significant credit risk on cash.

Property

The Corporation's policy is to capitalize asset purchases over \$10,000 that have useful lives greater than one year. Maintenance and repairs are charged to expense as incurred. Acquired property is stated at cost. Donated property is recorded at fair value on the date of donation. Property is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|-----------------------|------------|
| Building | 40 years |
| Building improvements | 5-20 years |

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Net assets

The Corporation classifies resources for accounting and reporting purposes into two net asset categories according to donor-imposed restrictions as follows:

Net Assets without Donor Restriction – net assets available for use in general operations and not subject to donor restrictions.

Net Assets with Donor Restrictions – net assets available for use subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Corporation had no net assets with donor restrictions as of June 30, 2022 and 2021.

Dividends

In May 2022, the Board amended the dividend policy. A determination to pay dividends to the shareholder is made annually based on the year end reconciled cash balance in excess of a minimum of \$500,000. Dividends declared by the Board will be paid as a return of common stock equity and will reduce the balance of common stock. This policy will continue until the accumulated deficit balance is positive and can fund the dividend payments declared by the Board.

Revenue recognition

Revenues are recognized when earned and consist of rental income earned from real property. The Corporation's primary revenue stream is rent charges for office space under a lease with Kentucky Public Pensions Authority (KPPA).

Functional allocation of expenses

The statements of functional expenses present the natural classification detail of expenses by function. Expenses are allocated between program, management, and general based upon specific identification.

Property taxes

The Corporation has received tax exemption relating to property taxes. Accordingly, no provision for property taxes has been recognized in the accompanying financial statements.

Income taxes

The Corporation qualifies as a tax-exempt organization under Section 501(c)(25) of the Internal Revenue Code, and accordingly, no provision for federal and state income taxes has been made in these statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Income taxes (continued)

The Corporation's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The Corporation has no uncertain tax positions resulting in an accrual of tax expense or benefit as of June 30, 2022 and 2021.

The Corporation's Federal Return of Organization Exempt from Income Tax, Form 990, is subject to examination by the taxing authorities until the expiration of the related statutes of limitations on the return, which is generally three years.

Recent accounting pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the year ending June 30, 2023.

Management is currently in the process of evaluating the impact of the adoption of this ASU on the financial statements.

Reclassification

Certain amounts reported in the 2020 financial statements have been reclassified to conform to the 2021 presentation.

Subsequent events

Management has evaluated subsequent events through August 26, 2022, the date the financial statements were available to be issued.

Note 2. Concentration of Credit Risk

Revenue

The Corporation's business activity consists solely of revenue from a lease of office space to KPPA. Rental income represented approximately 99% of total revenue for both years ended June 30, 2022 and 2021.

NOTES TO FINANCIAL STATEMENTS

Note 3. Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following as of June 30:

| | <u>2022</u> | <u>2021</u> |
|------|-------------------|---------------------|
| Cash | <u>\$ 972,901</u> | <u>\$ 1,207,470</u> |

The Corporation manages its liquidity and availability following two guiding principles: operating within a prudent range of financial soundness and stability and maintaining adequate liquid assets to fund near-term operating needs.

Note 4. Operating Lease

The Corporation leases office space to KPPA, a component unit of the Commonwealth of Kentucky (see Notes 5 and 6). The Corporation is responsible for repairs, insurance and other expenses. The lease terms are as follows:

Buildings A and C were combined in a single lease for \$88,914 that was payable monthly effective December 2019. The lease was amended effective December 2020 and rent is payable monthly for \$80,164 continuing until altered by a new lease agreement or termination of the current lease agreement with sixty days written notice.

Note 5. Related Party Transactions

KPPA, a component unit of the Commonwealth of Kentucky, is the lessee and occupant of buildings A and C. KPPA is the statutory (Kentucky Revised Statute 61) administrative agency for the Corporation. Total lease income under this operating lease for the years ended June 30, 2022 and 2021 was \$961,968 and \$1,005,718, respectively.

Note 6. Management Agreement

On November 16, 2019, the Corporation entered into a maintenance manager services agreement (agreement) for property management services with Norman Enterprises, LLC (maintenance manager). The original agreement ran through October 31, 2020 and was amended and renewed for two years through November 15, 2022. The amended agreement provides for one additional two-year renewal. Under the terms of the agreement, the Corporation will pay the maintenance manager \$8,334 per month to perform general maintenance, plumbing, electrical and painting in addition to coordinating and overseeing routine maintenance and services provided by third party vendors. Management fees under the terms of the agreements were \$100,008 and \$100,449 for the years ended June 30, 2022 and 2021, respectively, and were recorded as management and administrative expense in the financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 7. Uncertainty

Local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the Corporation as of August 26, 2022 management believes that a material impact on the Corporation's financial position and results of future operations is reasonably possible.

Note 8. Stock Reissuance

The Corporation had three shareholders owning 200 issued shares of common stock in the Corporation along with KERS being the majority shareholder. During the year ended June 30, 2021, the Corporation became aware that according to Kentucky Revised Statute KRS 61.650 all shares in the Corporation must be registered to a single shareholder KRS. Accordingly, in March 2021 all 200 shares previously issued were surrendered by the three shareholders and reissued to KRS who is now the sole shareholder in the Corporation.