



Principals

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Associate Principals

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Manager

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Independent Auditor's Report

To the Board of Directors of
Prosperity Heights Homeowners Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Prosperity Heights Homeowners Association, Inc., which comprise the balance sheets as of June 30, 2020 and 2019, and the related statements of income, 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 Prosperity Heights Homeowners Association, Inc. as of June 30, 2020 and 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 information on future major repairs and replacements on page 11 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, which 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.

Goldklang Group CPAs, P.C.

Reston, Virginia
April 20, 2021

PROSPERITY HEIGHTS HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEETS
JUNE 30, 2020 AND 2019

	2020	2019
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 78,904	\$ 44,106
Interest-Bearing Deposits	-	32,258
Assessments Receivable - Net	924	9,222
Prepaid Expenses	50	99
Prepaid Insurance	4,157	3,731
Total Assets	\$ 84,035	\$ 89,416
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
Accounts Payable	\$ 228	\$ -
Income Tax Payable	24	-
Prepaid Assessments	935	1,326
Total Liabilities	\$ 1,187	\$ 1,326
Replacement Reserves	\$ 32,861	\$ 32,258
Unappropriated Members' Equity	49,987	55,832
Total Members' Equity	\$ 82,848	\$ 88,090
Total Liabilities and Members' Equity	\$ 84,035	\$ 89,416

See Accompanying Notes to Financial Statements

PROSPERITY HEIGHTS HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>INCOME:</u>		
Assessments	\$ 90,480	\$ 91,520
Interest	103	193
Other	1,989	2,504
Total Income	<u>\$ 92,572</u>	<u>\$ 94,217</u>
<u>EXPENSES:</u>		
Legal	\$ 9,887	\$ 1,256
Audit	2,100	-
Insurance	4,011	3,940
Administrative	579	1,640
Social	4,151	2,486
Utilities	155	192
Grounds	5,827	8,944
Repairs and Maintenance	2,240	1,707
Trash Removal	68,840	69,318
Bad Debt	-	672
Income Taxes	24	4
Total Expenses	<u>\$ 97,814</u>	<u>\$ 90,159</u>
Net Income (Loss) before Contribution to Reserves	\$ (5,242)	\$ 4,058
Contribution to Reserves	<u>(603)</u>	<u>(693)</u>
Net Income (Loss)	<u>\$ (5,845)</u>	<u>\$ 3,365</u>

See Accompanying Notes to Financial Statements

PROSPERITY HEIGHTS HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of June 30, 2018	\$ 32,065	\$ 51,967	\$ 84,032
Additions:			
Contribution to Reserves	693		693
Net Income		3,365	3,365
Inter-Equity Transfer	<u>(500)</u>	<u>500</u>	<u> </u>
Balance as of June 30, 2019	\$ 32,258	\$ 55,832	\$ 88,090
Addition:			
Contribution to Reserves	603		603
Deduction:			
Net Loss		<u>(5,845)</u>	<u>(5,845)</u>
Balance as of June 30, 2020	<u>\$ 32,861</u>	<u>\$ 49,987</u>	<u>\$ 82,848</u>

PROSPERITY HEIGHTS HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	\$ (5,845)	\$ 3,365
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Bad Debt Expense	-	672
Decrease (Increase) in:		
Assessments Receivable	8,298	(2,138)
Prepaid Expenses	49	(7)
Prepaid Insurance	(426)	(30)
Increase (Decrease) in:		
Accounts Payable	228	(390)
Prepaid Assessments	(391)	430
Income Taxes Payable	24	-
Net Cash Flows from Operating Activities	<u>\$ 1,937</u>	<u>\$ 1,902</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 500	\$ 500
Received from Interest (Reserves)	103	193
Disbursed for Interest-Bearing Deposits	(103)	(193)
Received from Interest-Bearing Deposits	32,361	-
Net Cash Flows from Investing Activities	<u>\$ 32,861</u>	<u>\$ 500</u>
Net Change in Cash and Cash Equivalents	\$ 34,798	\$ 2,402
Cash and Cash Equivalents at Beginning of Year	<u>44,106</u>	<u>41,704</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 78,904</u></u>	<u><u>\$ 44,106</u></u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u><u>\$ -</u></u>	<u><u>\$ 4</u></u>

See Accompanying Notes to Financial Statements

PROSPERITY HEIGHTS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 - NATURE OF OPERATIONS:

The Association was organized under the laws of the Commonwealth of Virginia for the purposes of maintaining and preserving the common property of the Association. The Association is located in Annandale, Virginia and consists of 208 homes. The Board of Directors administers the operations of the Association.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

A) Method of Accounting - The financial statements are presented on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

B) Member Assessments - Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its assessments are satisfied over time on a daily pro-rata basis using the input method. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from members. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. The Association treats uncollectible assessments as credit losses. Methods, inputs, and assumptions used to evaluate when assessments are considered uncollectible include consideration of past experience and susceptibility to factors outside the Association's control. Prior to the adoption of ASU 2014-09, the Association recognized revenue when earned.

C) Common Property - Real property and common areas acquired from the declarant and related improvements to such property are not recorded in the Association's financial statements since the property cannot be disposed of at the discretion of the Board of Directors. Common property includes, but is not limited to, land and site improvements.

D) Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions. Such estimates affect the reported amounts of assets and liabilities. They also affect the 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.

E) Cash Equivalents - For purposes of the statement of cash flows, the Association considers all highly liquid investments and interest-bearing deposits with an original maturity date of three months or less to be cash equivalents.

PROSPERITY HEIGHTS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES:

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are generally not available for expenditures for normal operations.

The Association had a replacement reserve study conducted by Facility Engineering Associates during 2016. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The study recommends a contribution to reserves of \$500 and an interest contribution of \$168 for 2019, and a contribution to reserves of \$500 and an interest contribution of \$171 for 2020. For fiscal year 2019, the Association budgeted to contribute \$500 to reserves. In addition, the Association contributed interest income of \$193 to reserves, and transferred \$500 from replacement reserves to unappropriated members' equity. For fiscal year 2020, the Association budgeted to contribute \$500 to reserves. In addition, the Association contributed interest income of \$103 to reserves.

Funds are being accumulated in replacement reserves based on estimates of future needs for repair and replacement of common property components. Actual expenditures may vary from the estimated future expenditures and the variations may be material; therefore, amounts accumulated in the replacement reserves may or may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Board of Directors, on behalf of the Association may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As of June 30, 2020 and 2019, the Association had designated \$32,861 and \$32,258, respectively, for replacement reserves. These designated reserves were funded by cash and cash equivalents.

NOTE 4 - INCOME TAXES:

For income tax purposes, the Association may elect annually to file either as an exempt homeowners association or as an association taxable as a corporation. As an exempt condominium homeowners association, the Association's net assessment income would be exempt from income tax, but its interest income would be taxed. Electing to file as a corporation, the Association is taxed on its net income from all sources (to the extent not capitalized or deferred) at normal corporate rates after corporate exemption, subject to the limitation that operating expenses are deductible only to the extent of income from members. For fiscal years 2020 and 2019, the Association's income taxes were calculated using the exempt method.

PROSPERITY HEIGHTS HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019
(CONTINUED)

NOTE 4 - INCOME TAXES: (CONTINUED)

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. The Association's federal and state tax returns for the past three years remain subject to examination by the Internal Revenue Service and the Commonwealth of Virginia.

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of June 30, 2020, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Cash and Cash Equivalents</u>
CapitalOne Bank	<u>\$ 78,904</u>

As of June 30, 2019, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Cash and Cash Equivalents</u>	<u>Interest-Bearing Deposits</u>
CapitalOne Bank	\$ 44,106	\$ -
Mutual of Omaha Bank		32,258
Totals	<u>\$ 44,106</u>	<u>\$ 32,258</u>

NOTE 6 - ASSESSMENTS RECEIVABLE - NET:

The Association utilizes the allowance method of accounting for bad debt. Individual receivables are written off as a loss when a determination is made that they are non-collectible. Under the allowance method, collection efforts may continue and recoveries of amounts previously written off are recognized as income in the year of collection.

PROSPERITY HEIGHTS HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019
(CONTINUED)

NOTE 6 - ASSESSMENTS RECEIVABLE - NET: (CONTINUED)

	2020	2019
Assessments Receivable	\$ 1,941	\$ 10,239
Less: Allowance for Doubtful Assessments	(1,017)	(1,017)
Assessments Receivable - Net	\$ 924	\$ 9,222

NOTE 7 - FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION:

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate—Common Interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association adopted the new guidance as of July 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 unappropriated members' equity 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 July 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment income and contract liabilities (special assessments received in advance), as previously described.

The adoption of the new revenue recognition guidance resulted in no changes to balances as of July 1, 2019.

NOTE 8 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 20, 2021, the date the financial statements were available to be issued.

Subsequent to year end, the Association expensed approximately \$6,000 and \$14,500 for audit and landscaping, respectively. The Association budgeted \$0 and \$9,000 for audit and landscaping, respectively.

PROSPERITY HEIGHTS HOMEOWNERS ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
JUNE 30, 2020
(UNAUDITED)

The Association had a replacement reserve study conducted by Facility Engineering Associates during 2016 to estimate 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 components at the date of the study. The estimated replacement costs presented below do not take into account the effects of inflation between the date of the study and the date the components will require repair or replacement.

The following has been extracted from the Association's replacement reserve study and presents significant information about the components of common property.

<u>Component</u>	2016 Estimated Remaining Useful Life (Years)	2016 Estimated Replacement Cost
Entrance Monument	6	\$ 4,000
Tot Lot	13	25,000