



Principals

Howard A. Goldklang, CPA, MBA
Donald E. Harris, CPA
Anne M. Sheehan, CPA
S. Gail Moore, CPA
Jeremy W. Powell, CPA
Renee L. Watson, CPA

1801 Robert Fulton Drive, Suite 200
Reston, VA 20191

Associate Principals

Matthew T. Stiefvater, CPA
Sheila M. Lewis, CPA

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 sheet as of June 30, 2018, and the related statements of income, members' equity 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 Prosperity Heights Homeowners Association, Inc. as of June 30, 2018, and the results of its operations and its cash flows for the year 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 10 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
July 28, 2019

PROSPERITY HEIGHTS HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEET
JUNE 30, 2018

ASSETS

Cash and Cash Equivalents	\$	41,704
Interest-Bearing Deposits		32,065
Assessments Receivable - Net		7,756
Prepaid Expenses		92
Prepaid Insurance		<u>3,701</u>
Total Assets	\$	<u><u>85,318</u></u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$	390
Prepaid Assessments		<u>896</u>
Total Liabilities	\$	<u>1,286</u>
Replacement Reserves	\$	32,065
Unappropriated Members' Equity		<u>51,967</u>
Total Members' Equity	\$	<u>84,032</u>
Total Liabilities and Members' Equity	\$	<u><u>85,318</u></u>

PROSPERITY HEIGHTS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF INCOME
FOR THE YEAR ENDED JUNE 30, 2018

INCOME:

Assessments	\$ 87,360
Interest	152
Other	<u>4,720</u>
Total Income	<u>\$ 92,232</u>

EXPENSES:

Legal	\$ 2,987
Insurance	2,912
Administrative	534
Social	5,645
Utilities	212
Grounds	9,438
Repairs and Maintenance	500
Trash Removal	70,963
Bad Debt	<u>420</u>
Total Expenses	<u>\$ 93,611</u>

Net Income (Loss) before Contribution to Reserves	\$ (1,379)
Contribution to Reserves	<u>(652)</u>

Net Income (Loss)	<u><u>\$ (2,031)</u></u>
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PROSPERITY HEIGHTS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF MEMBERS' EQUITY
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of June 30, 2017	\$ 31,913	\$ 53,498	\$ 85,411
Addition:			
Contribution to Reserves	652		652
Inter-Equity Transfer	(500)	500	
Deduction:			
Net Loss		(2,031)	(2,031)
Balance as of June 30, 2018	<u>\$ 32,065</u>	<u>\$ 51,967</u>	<u>\$ 84,032</u>

PROSPERITY HEIGHTS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income (Loss)	\$	(2,031)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Bad Debt Expense		420
Decrease (Increase) in:		
Assessments Receivable		524
Prepaid Expenses		1
Prepaid Insurance		(1,026)
Increase (Decrease) in:		
Accounts Payable		(1,285)
Prepaid Assessments		871
Net Cash Flows from Operating Activities	\$	<u>(2,526)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Received from Assessments (Reserves)	\$	500
Received from Interest (Reserves)		152
Disbursed for Interest-Bearing Deposits		<u>(152)</u>
Net Cash Flows from Investing Activities	\$	<u>500</u>
Net Change in Cash and Cash Equivalents	\$	(2,026)
Cash and Cash Equivalents at Beginning of Year		<u>43,730</u>
Cash and Cash Equivalents at End of Year	\$	<u><u>41,704</u></u>

PROSPERITY HEIGHTS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 which revenues are recognized when earned and expenses when incurred, not necessarily when received or paid.

B) Member Assessments - Association members are subject to assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from homeowners. The Association's policy is to assess late and interest charges and to retain legal counsel and place liens on the properties of owners whose assessments are delinquent. Any excess assessments at year-end are retained by the Association for use in future years. The Association utilizes the allowance method of accounting for bad debt.

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.

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.

PROSPERITY HEIGHTS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

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 for 2018 and an interest contribution of \$165. For fiscal year 2018, the Association budgeted to contribute \$500 to reserves. In addition, the Association contributed interest income of \$152 to reserves, and transferred \$500 from replacement reserves to unappropriated members' equity.

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, 2018, the Association had designated \$32,065 for replacement reserves. These designated reserves were funded by cash and interest-bearing deposits.

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 year 2018, the Association's income taxes were calculated using the exempt method, which resulted in no income tax liability.

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.

PROSPERITY HEIGHTS HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018
(CONTINUED)

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of June 30, 2018, 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	\$ 41,704	\$ -
Mutual of Omaha Bank		32,065
Total	<u>\$ 41,704</u>	<u>\$ 32,065</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.

Assessments Receivable	\$ 8,176
Less: Allowance for Doubtful Assessments	<u>(420)</u>
Assessments Receivable - Net	<u>\$ 7,756</u>

NOTE 7 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 28, 2019, the date the financial statements were available to be issued.

PROSPERITY HEIGHTS HOMEOWNERS ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
JUNE 30, 2018
(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