



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

Manager

Andrew T. Plaughner, CPA

Independent Auditor's Report

To the Board of Directors of
Whittier Community Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Whittier Community Association, Inc., which comprise the balance sheets as of December 31, 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Whittier Community Association, Inc. as of December 31, 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.

Emphasis of Matter Regarding Assessments Receivable

Whittier Community Association, Inc. raises funds for its operations and major repairs and replacements through assessment of its members. As explained in Note 6, as of December 31, 2020, the Association had an assessments receivable balance of \$244,088 (before deducting the allowance for doubtful assessments of \$197,371). It is uncertain whether the receivables are actually collectible. The inability to collect owner assessments impacts adversely on the Association's viability. In order for the Association to maintain financial stability and to operate effectively, it must raise and be able to collect sufficient funds from its members to meet its operational and replacement reserve needs. Our opinion on the financial statements is not modified with respect to this matter.

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
October 27, 2021

WHITTIER COMMUNITY ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 539,952	\$ 337,877
Interest-Bearing Deposits	980,000	1,055,000
Assessments Receivable - Net	46,717	30,377
Accrued Interest	3,563	2,867
Accounts Receivable - Other	-	1,500
Income Taxes Receivable	3,672	3,459
Contract Deposit	-	12,577
Prepaid Expenses	<u>5,794</u>	<u>5,502</u>
Total Assets	<u>\$ 1,579,698</u>	<u>\$ 1,449,159</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 13,901	\$ 33,621
Prepaid Assessments	<u>43,592</u>	<u>33,707</u>
Total Liabilities	<u>\$ 57,493</u>	<u>\$ 67,328</u>
Replacement Reserves	\$ 1,103,096	\$ 1,103,869
Unappropriated Members' Equity	<u>419,109</u>	<u>277,962</u>
Total Members' Equity	<u>\$ 1,522,205</u>	<u>\$ 1,381,831</u>
Total Liabilities and Members' Equity	<u>\$ 1,579,698</u>	<u>\$ 1,449,159</u>

WHITTIER COMMUNITY ASSOCIATION, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>INCOME:</u>		
Assessments	\$ 690,249	\$ 666,647
Pool	-	25,300
Interest	26,006	26,284
Bad Debt Recovery	19,451	-
Other	9,617	13,350
Total Income	<u>\$ 745,323</u>	<u>\$ 731,581</u>
 <u>EXPENSES:</u>		
Management, Legal , Audit and Tax	\$ 116,890	\$ 108,210
Insurance	26,300	26,228
ACC Inspections	6,300	10,748
Printing and Postage	12,883	17,018
Administrative	21,769	11,722
Electricity	377	335
Common Area Maintenance	7,944	11,896
Pool	118,447	221,931
Lawn Service	147,809	211,469
Snow Removal	10,815	28,488
Bad Debt	-	2,102
Income Taxes	5,387	6,321
Total Expenses	<u>\$ 474,921</u>	<u>\$ 656,468</u>
Net Income before Contribution to Reserves	\$ 270,402	\$ 75,113
Contribution to Reserves	<u>(129,255)</u>	<u>(121,777)</u>
Net Income (Loss)	<u>\$ 141,147</u>	<u>\$ (46,664)</u>

See Accompanying Notes to Financial Statements

WHITTIER COMMUNITY ASSOCIATION, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2018	\$ 995,404	\$ 324,626	\$ 1,320,030
Addition:			
Contribution to Reserves	121,777		121,777
Deductions:			
Pool Fence	(3,689)		(3,689)
Pool Furniture	(4,923)		(4,923)
Pool Repairs	(4,700)		(4,700)
Net Loss	<u>(46,664)</u>	<u>(46,664)</u>	<u>(46,664)</u>
Balance as of December 31, 2019	\$ 1,103,869	\$ 277,962	\$ 1,381,831
Additions:			
Contribution to Reserves	129,255		129,255
Net Income		141,147	141,147
Deductions:			
Pool Repairs	(104,875)		(104,875)
Pool Furniture	<u>(25,153)</u>	<u>(25,153)</u>	<u>(25,153)</u>
Balance as of December 31, 2020	<u>\$ 1,103,096</u>	<u>\$ 419,109</u>	<u>\$ 1,522,205</u>

WHITTIER COMMUNITY ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	\$ 141,147	\$ (46,664)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Bad Debt Expense (Recovery)	(19,451)	2,102
Decrease (Increase) in:		
Assessments Receivable	3,111	(25,433)
Accrued Interest	(696)	621
Accounts Receivable - Other	1,500	(1,500)
Income Taxes Receivable	(213)	(2,679)
Prepaid Expenses	(292)	(74)
Increase (Decrease) in:		
Accounts Payable	(19,720)	19,307
Prepaid Assessments	<u>9,885</u>	<u>(15,430)</u>
Net Cash Flows from Operating Activities	<u>\$ 115,271</u>	<u>\$ (69,750)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 129,255	\$ 121,777
Disbursed for Reserve Expenditures	(117,451)	(25,888)
Received from Interest-Bearing Deposits	705,000	625,000
Disbursed for Interest-Bearing Deposits	<u>(630,000)</u>	<u>(600,000)</u>
Net Cash Flows from Investing Activities	<u>\$ 86,804</u>	<u>\$ 120,889</u>
Net Change in Cash and Cash Equivalents	\$ 202,075	\$ 51,139
Cash and Cash Equivalents at Beginning of Year	<u>337,877</u>	<u>286,738</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 539,952</u></u>	<u><u>\$ 337,877</u></u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u><u>\$ 5,600</u></u>	<u><u>\$ 9,000</u></u>

See Accompanying Notes to Financial Statements

WHITTIER COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 - NATURE OF OPERATIONS:

The Association is organized under the laws of the State of Maryland for the purposes of maintaining and preserving the common property. The Association is located in Frederick, Maryland and consists of 1,590 units. 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.

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, recreational facilities, 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 of three months or less to be cash equivalents.

WHITTIER COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 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 Reserve Advisors, Inc. in 2016. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The reserve study recommends a contribution to reserves of \$90,200 and an interest contribution of \$6,487 for 2020. For 2020, the Association budgeted to contribute \$129,255 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 December 31, 2020 and 2019, the Association had designated \$1,103,096 and \$1,103,869, respectively, 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 homeowners association, the Association's net assessment income would be exempt from income tax, but its interest 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 2020 and 2019, the income taxes were calculated using the corporate method.

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 State of Maryland.

WHITTIER COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(CONTINUED)

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of December 31, 2020, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Cash and Cash Equivalents</u>	<u>Interest- Bearing Deposits</u>
Alliance Association Bank	\$ 119,567	\$ -
Morgan Stanley (Various Institutions)	420,385	980,000
Totals	<u>\$ 539,952</u>	<u>\$ 980,000</u>

Cash and securities held at a SIPC member brokerage firm are insured by the SIPC for up to \$500,000, which includes \$250,000 limit for cash. The Association maintains funds in a brokerage account which are subject to SIPC limits.

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 uncollectible. Under the allowance method, collection efforts may continue and recovery of amounts previously written off are recognized as income in the year of collection.

	<u>2020</u>	<u>2019</u>
Assessments Receivable	\$ 244,088	\$ 265,471
Less: Allowance for Doubtful Assessments	<u>(197,371)</u>	<u>(235,094)</u>
Assessments Receivable - Net	<u>\$ 46,717</u>	<u>\$ 30,377</u>

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.

WHITTIER COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(CONTINUED)

NOTE 7 - FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION:
(CONTINUED)

The Association adopted the new guidance as of January 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 January 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment income as previously described.

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

NOTE 8 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 27, 2021, the date the financial statements were available to be issued.

Subsequent to year-end, the Association signed a contract for pool repairs in the amount of \$110,300. This project will be funded by replacement reserves.

Subsequent to year-end, the Association signed two contracts for pool furniture replacement for \$27,256 and \$29,700. Both contracts will be funded through replacement reserves.

WHITTIER COMMUNITY ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2020
(UNAUDITED)

The Association's had a reserve study conducted by Reserve Advisors, Inc. 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; however, the Association's replacement reserve study does take inflation into consideration when evaluating future expenditures and recommended contributions to reserves.

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>	<u>2016</u> <u>Estimated</u> <u>Remaining</u> <u>Useful Life</u> <u>(Years)</u>	<u>2016</u> <u>Estimated</u> <u>Replacement</u> <u>Cost</u>
Property Site Elements	0-30	\$ 467,920
Pool House	2-18	186,490
Pool Elements	1-10	362,710
Reserve	2	3,750