



Principals

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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, 2016 and 2015, 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 Whittier Community Association, Inc. as of December 31, 2016 and 2015, 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, 2016, the Association had an assessments receivable balance of \$196,856 (before deducting the allowance for doubtful assessments of \$177,211). 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 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, 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 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
August 23, 2017

WHITTIER COMMUNITY ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 477,249	\$ 162,684
Interest-Bearing Deposits	820,000	981,377
Assessments Receivable - Net	19,645	12,393
Accrued Interest	2,069	1,982
Income Taxes Receivable	2,061	3,198
Prepaid Expenses	<u>9,323</u>	<u>9,177</u>
Total Assets	<u>\$ 1,330,347</u>	<u>\$ 1,170,811</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
Accounts Payable	\$ 27,850	\$ 14,423
Prepaid Assessments	<u>90,657</u>	<u>51,429</u>
Total Liabilities	<u>\$ 118,507</u>	<u>\$ 65,852</u>
Replacement Reserves	\$ 862,618	\$ 781,100
Unappropriated Members' Equity	<u>349,222</u>	<u>323,859</u>
Total Members' Equity	<u>\$ 1,211,840</u>	<u>\$ 1,104,959</u>
Total Liabilities and Members' Equity	<u>\$ 1,330,347</u>	<u>\$ 1,170,811</u>

See Accompanying Notes to Financial Statements

WHITTIER COMMUNITY ASSOCIATION, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
<u>INCOME:</u>		
Assessments	\$ 638,477	\$ 636,200
Pool	26,365	29,742
Interest	13,304	12,127
Other	9,840	11,410
Total Income	,986	\$ 689,479
 <u>EXPENSES:</u>		
Management, Legal, Audit and Tax Preparation	102,829	97,636
Insurance	25,159	25,324
ACC Violations	8,413	8,021
Printing and Postage	17,712	15,882
Administrative	18,577	23,324
Electricity	360	354
Common Area Maintenance	9,946	15,852
Pool	194,307	193,852
Lawn Service	132,606	125,923
Snow Removal	22,346	24,326
Bad Debt	7,951	28,025
Income Taxes	1,737	2,436
Total Expenses	\$ 541,943	\$ 560,955
Net Income before Contribution to Reserves	\$ 146,043	\$ 128,524
Contribution to Reserves	(120,680)	(117,076)
Net Income	\$ 25,363	\$ 11,448

See Accompanying Notes to Financial Statements

WHITTIER COMMUNITY ASSOCIATION, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2014	\$ 719,305	\$ 312,411	\$ 1,031,716
Additions:			
Contribution to Reserves	117,076		117,076
Net Income		11,448	11,448
Deductions:			
Pool	(49,409)		(49,409)
Brick Wall	(485)		(485)
Plumbing	(1,987)		(1,987)
Painting	(1,150)		(1,150)
Lighting	(2,250)		(2,250)
Balance as of December 31, 2015	\$ 781,100	\$ 323,859	\$ 1,104,959
Additions:			
Contribution to Reserves	120,680		120,680
Net Income		25,363	25,363
Deductions:			
Pool	(33,370)		(33,370)
Asphalt	(1,489)		(1,489)
Tot Lot	(4,303)		(4,303)
Balance as of December 31, 2016	<u>\$ 862,618</u>	<u>\$ 349,222</u>	<u>\$ 1,211,840</u>

See Accompanying Notes to Financial Statements

WHITTIER COMMUNITY ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 25,363	\$ 11,448
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Bad Debt Expense	7,951	28,025
Decrease (Increase) in:		
Assessments Receivable	(15,203)	(27,918)
Accrued Interest	(87)	373
Income Taxes Receivable	1,137	2,236
Prepaid Expenses	(146)	3,497
Increase (Decrease) in:		
Accounts Payable	11,938	8,683
Prepaid Assessments	39,228	(12,307)
Net Cash Flows from Operating Activities	<u>\$ 70,181</u>	<u>\$ 14,037</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 120,680	\$ 117,076
Disbursed for Reserve Expenditures	(37,673)	(56,156)
Received from Interest-Bearing Deposits	611,755	505,263
Disbursed for Interest-Bearing Deposits	(450,378)	(730,640)
Net Cash Flows from Investing Activities	<u>\$ 244,384</u>	<u>\$ (164,457)</u>
Net Change in Cash and Cash Equivalents	\$ 314,565	\$ (150,420)
Cash and Cash Equivalents at Beginning of Year	<u>162,684</u>	<u>313,104</u>
Cash and Cash Equivalents at End of Year	<u>\$ 477,249</u>	<u>\$ 162,684</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 600</u>	<u>\$ 200</u>

See Accompanying Notes to Financial Statements

WHITTIER COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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 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 to account 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, recreation 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 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.

WHITTIER COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

The Association had a replacement reserve study conducted by Reserve Advisors, Inc. in 2006. The Association had an updated study conducted in 2016. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on the updated study.

The 2006 reserve study recommends a contribution to reserves of \$90,500 and an interest contribution of \$30,180 for 2016. For 2016, the Association budgeted to contribute \$120,680 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, 2016 and 2015, the Association had designated \$862,618 and \$781,100, 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 2016 and 2015, the income taxes were calculated using the corporate and exempt methods, respectively.

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended December 31, 2016 and 2015, the Association did not incur any penalties and interest related to income taxes. 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, 2016 AND 2015
(CONTINUED)

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of December 31, 2016, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Interest- Bearing Deposits</u>	<u>Total</u>
Alliance Bank	Checking	\$ 144,056	\$ -	\$ 144,056
Alliance Bank	Money Market	9,022		9,022
Morgan Stanley	Money Markets (2)	324,171		324,171
Morgan Stanley (Various Institutions)	Certificates of Deposit (15)		820,000	820,000
	Totals	<u>\$ 477,249</u>	<u>\$ 820,000</u>	<u>\$ 1,297,249</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>2016</u>	<u>2015</u>
Assessments Receivable	\$ 196,856	\$ 205,195
Less: Allowance for Doubtful Assessments	(177,211)	(192,802)
Assessments Receivable - Net	<u>\$ 19,645</u>	<u>\$ 12,393</u>

NOTE 7 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 23, 2017, the date the financial statements were available to be issued.

WHITTIER COMMUNITY ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2016
(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 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
Property Site Elements	0 - 30	\$ 697,844
Pool House	2 - 18	441,149
Pool Elements	1 - 10	1,490,783
Reserve Study	2	3,750