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Independent Auditor's Report

To the Board of Directors of
Kings Park West Community Association

Report on the Financial Statements

We have audited the accompanying financial statements of Kings Park West Community Association, which comprise the balance sheets as of May 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 Kings Park West Community Association as of May 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

Kings Park West Community Association raises funds for its operations and major repairs and replacements through assessment of its members. As explained in Note 6, as of May 31, 2020, the Association had an assessments receivable balance of \$4,493 (before deducting the allowance for doubtful assessments of \$3,705). 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
September 9, 2021

KINGS PARK WEST COMMUNITY ASSOCIATION
BALANCE SHEETS
MAY 31, 2020 AND 2019

	2020	2019
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 13,766	\$ 12,411
Interest-Bearing Deposits	30,909	28,356
Assessments Receivable - Net	788	1,379
Prepaid Expenses	301	301
Total Assets	\$ 45,764	\$ 42,447

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 650	\$ 1,209
Prepaid Assessments	1,120	1,168
Total Liabilities	\$ 1,770	\$ 2,377
Replacement Reserves	\$ 18,358	\$ 16,796
Unappropriated Members' Equity	25,636	23,274
Total Members' Equity	\$ 43,994	\$ 40,070
Total Liabilities and Members' Equity	\$ 45,764	\$ 42,447

See Accompanying Notes to Financial Statements

KINGS PARK WEST COMMUNITY ASSOCIATION
STATEMENTS OF INCOME
FOR THE YEARS ENDED MAY 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>INCOME:</u>		
Assessments	\$ 23,200	\$ 23,200
Interest	562	392
Late and Legal	-	1,064
Other	42	-
Total Income	<u>\$ 23,804</u>	<u>\$ 24,656</u>
<u>EXPENSES:</u>		
Management	\$ 6,005	\$ 6,296
Legal, Audit and Tax Preparation	2,931	3,756
Insurance	4,360	4,301
Office, Printing and Postage	605	1,677
Administrative	889	306
Tree Service	5,050	8,700
Bad Debt	40	1,624
Total Expenses	<u>\$ 19,880</u>	<u>\$ 26,660</u>
Net Income (Loss) before Contribution to Reserves	\$ 3,924	\$ (2,004)
Contribution to Reserves	<u>(1,562)</u>	<u>(1,392)</u>
Net Income (Loss)	<u>\$ 2,362</u>	<u>\$ (3,396)</u>

See Accompanying Notes to Financial Statements

KINGS PARK WEST COMMUNITY ASSOCIATION
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED MAY 31, 2020 AND 2019

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of May 31, 2018	\$ 16,054	\$ 26,670	\$ 42,724
Addition:			
Contribution to Reserves	1,392		1,392
Deductions:			
Landscape	(650)		(650)
Net Loss	<u> </u>	<u>(3,396)</u>	<u>(3,396)</u>
Balance as of May 31, 2019	\$ 16,796	\$ 23,274	\$ 40,070
Additions:			
Contribution to Reserves	1,562		1,562
Net Income	<u> </u>	<u>2,362</u>	<u>2,362</u>
Balance as of May 31, 2020	<u>\$ 18,358</u>	<u>\$ 25,636</u>	<u>\$ 43,994</u>

See Accompanying Notes to Financial Statements

KINGS PARK WEST COMMUNITY ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	\$ 2,362	\$ (3,396)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Bad Debt Expense	40	1,624
Decrease (Increase) in:		
Assessments Receivable	551	733
Increase (Decrease) in:		
Accounts Payable	(559)	(441)
Prepaid Assessments	(48)	93
Net Cash Flows from Operating Activities	<u>\$ 2,346</u>	<u>\$ (1,387)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 1,000	\$ 1,000
Received from Interest (Reserves)	562	392
Disbursed for Reserve Expenditures	-	(650)
Disbursed for Interest-Bearing Deposits	(2,553)	(385)
Net Cash Flows from Investing Activities	<u>\$ (991)</u>	<u>\$ 357</u>
Net Change in Cash and Cash Equivalents	\$ 1,355	\$ (1,030)
Cash and Cash Equivalents at Beginning of Year	<u>12,411</u>	<u>13,441</u>
Cash and Cash Equivalents at End of Year	<u>\$ 13,766</u>	<u>\$ 12,411</u>

See Accompanying Notes to Financial Statements

KINGS PARK WEST COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020 AND 2019

NOTE 1 - NATURE OF OPERATIONS:

The Association is organized under the laws of the Commonwealth of Virginia for the purposes of maintaining and preserving the common property of the community. The Association is located in Fairfax, Virginia and consists of 580 homes. The Board of Directors administers the operations of the community.

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 variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained 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 - Common 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.

KINGS PARK WEST COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MAY 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 Board of Directors conducted a replacement reserve study in 2015. 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 \$1,000 plus an interest contribution of \$124 for fiscal year 2020. For fiscal year 2020, the Association budgeted to contribute \$1,000 plus interest income of \$562 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 May 31, 2020 and 2019, the Association had designated \$18,358 and \$16,796, 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 association or as an association taxable as a corporation. As an exempt 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 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.

KINGS PARK WEST COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020 AND 2019
(CONTINUED)

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of May 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>
Mutual of Omaha	\$ 13,766	\$ -
BB&T		30,909
	<u>\$ 13,766</u>	<u>\$ 30,909</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.

	<u>2020</u>	<u>2019</u>
Assessments Receivable	\$4,493	\$5,284
Less: Allowance for Doubtful Assessments	(3,705)	(3,905)
Assessments Receivable - Net	<u>\$ 788</u>	<u>\$ 1,379</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.

The Association adopted the new guidance as of June 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 June 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 June 1, 2019.

KINGS PARK WEST COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020 AND 2019
(CONTINUED)

NOTE 8 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through September 9, 2021, the date the financial statements were available to be issued.

KINGS PARK WEST COMMUNITY ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
MAY 31, 2020
(UNAUDITED)

The Board of Directors conducted a replacement reserve study in 2015 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 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 reserve study and presents significant information about the components of common property.

<u>Component</u>	<u>2015 Estimated Remaining Useful Life (Years)</u>	<u>2015 Estimated Replacement Cost</u>
Asphalt/Concrete Walks	0-25	\$ 29,048
Entrance Sign-Brick Masonry	15	No Dollar Amount
Entrance Walls/Sign	5	No Dollar Amount