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# Independent Auditor's Report

To the Board of Directors of
Council of Co-Owners of Fairlington Meadows

## Opinion

We have audited the accompanying financial statements of Council of Co-Owners of Fairlington Meadows, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Council of Co-Owners of Fairlington Meadows as of December 31, 2021 and 2020, 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.

## Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Council of Co-Owners of Fairlington Meadows and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Council of Co-Owners of Fairlington Meadows's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

**Auditor's Responsibility for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Council of Co-Owners of Fairlington Meadows's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Council of Co-Owners of Fairlington Meadows's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

**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 13 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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
August 30, 2022

COUNCIL OF CO-OWNERS OF FAIRLINGTON MEADOWS
BALANCE SHEETS
DECEMBER 31, 2021 AND 2020

| | 2021 | 2020 |
|---|---|---|
| **ASSETS** | | |
| Cash and Cash Equivalents | $ 351,060 | $ 598,495 |
| Interest-Bearing Deposits | 570,000 | 730,000 |
| Assessments Receivable | 5,502 | 1,453 |
| Accrued Interest | 4,079 | 5,103 |
| Income Taxes Receivable | 6,764 | 5,399 |
| Prepaid Insurance | - | 14,747 |
| Prepaid Expenses | 7,174 | 7,017 |
| Deferred Taxes | 10,504 | - |
| Vehicle - Net | 15,288 | 19,874 |
| Total Assets | $ 970,371 | $ 1,382,088 |
| **LIABILITIES AND MEMBERS' EQUITY** | | |
| Accounts Payable | $ 35,502 | $ 79,551 |
| Deferred Insurance Proceeds | 36,723 | 50,985 |
| Deferred Cable Income | 38,903 | 41,468 |
| Prepaid Assessments | 70,685 | 54,921 |
| Total Liabilities | $ 181,813 | $ 226,925 |
| Operating Reserve | $ 263,531 | $ 253,531 |
| Replacement Reserves | 505,055 | 876,731 |
| Unappropriated Members' Equity | 19,972 | 24,901 |
| Total Members' Equity | $ 788,558 | $ 1,155,163 |
| Total Liabilities and Members' Equity | $ 970,371 | $ 1,382,088 |

See Accompanying Notes to Financial Statements

COUNCIL OF CO-OWNERS OF FAIRLINGTON MEADOWS
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

| | 2021 | 2020 |
|---|---|---|
| INCOME: | | |
| Assessments | $ 1,434,353 | $ 1,406,234 |
| Interest | 17,197 | 23,096 |
| Cable | 2,565 | 1,282 |
| Gain on Sale of Equipment | - | 1,300 |
| Deferred Tax Benefit | 10,504 | - |
| Other | 285 | 346 |
| Total Income | $ 1,464,904 | $ 1,432,258 |
| EXPENSES: | | |
| Management | $ 75,883 | $ 75,883 |
| Legal, Audit and Tax Preparation | 25,625 | 30,459 |
| Administrative | 24,753 | 25,553 |
| Insurance | 130,108 | 91,529 |
| Payroll and Related Costs | 118,564 | 133,381 |
| Grounds Maintenance | 133,038 | 80,162 |
| Trash Removal | 85,027 | 84,188 |
| Janitorial | 17,219 | 19,751 |
| Snow Removal | 18,259 | 450 |
| Electricity | 12,727 | 11,683 |
| Water and Sewer | 190,834 | 172,289 |
| Pool | 44,034 | 41,780 |
| Common Area Maintenance | 120,127 | 170,231 |
| Depreciation | 4,586 | 3,058 |
| Income Taxes | 13,299 | 4,482 |
| Total Expenses | $ 1,014,083 | $ 944,879 |
| Net Income before Contribution to Reserves | $ 450,821 | $ 487,379 |
| Contribution to Reserves | (455,750) | (476,300) |
| Net Income (Loss) | $ (4,929) | $ 11,079 |

See Accompanying Notes to Financial Statements

# COUNCIL OF CO-OWNERS OF FAIRLINGTON MEADOWS
## STATEMENTS OF MEMBERS' EQUITY
## FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

| | Operating Reserve | Replacement Reserves | Unappropriated Members' Equity (Deficit) | Total Members' Equity |
|---|---|---|---|---|
| Balance as of December 31, 2019 | $ 213,531 | $ 1,656,169 | $ (9,110) | $ 1,860,590 |
| Additions: | | | | |
| Contribution to Reserves | 40,000 | 435,000 | | 475,000 |
| Gain on Sale of Equipment | | 1,300 | | 1,300 |
| Net Income | | | 11,079 | 11,079 |
| Deductions: | | | | |
| Chimneys | | (51,125) | | (51,125) |
| Concrete/Asphalt | | (92,881) | | (92,881) |
| Electrical | | (67,375) | | (67,375) |
| Fence | | (571,259) | | (571,259) |
| Carpentry | | (28,675) | | (28,675) |
| Landscaping | | (5,650) | | (5,650) |
| Painting | | (62,856) | | (62,856) |
| Plumbing | | (60,305) | | (60,305) |
| Pool | | (500) | | (500) |
| Truck | | (22,932) | 22,932 | |
| Roofs and Gutters | | (185,146) | | (185,146) |
| Playground | | (67,034) | | (67,034) |
| Balance as of December 31, 2020 | $ 253,531 | $ 876,731 | $ 24,901 | $ 1,155,163 |
| Addition: | | | | |
| Contribution to Reserves | 10,000 | 445,750 | | 455,750 |
| Deductions: | | | | |
| Drainage | | (42,295) | | (42,295) |
| Electrical | | (55,312) | | (55,312) |
| Exterior Painting | | (121,713) | | (121,713) |
| Exterior Repairs | | (51,281) | | (51,281) |
| Fencing | | (1,848) | | (1,848) |
| Furniture | | (2,969) | | (2,969) |
| Landscaping | | (101,094) | | (101,094) |
| Playground | | (29,081) | | (29,081) |
| Plumbing | | (41,490) | | (41,490) |
| Pool | | (14,745) | | (14,745) |
| Retaining Wall | | (7,429) | | (7,429) |
| Roofs and Gutters | | (274,443) | | (274,443) |
| Signs | | (9,591) | | (9,591) |
| Tuckpointing | | (64,135) | | (64,135) |
| Net Loss | | | (4,929) | (4,929) |
| Balance as of December 31, 2021 | $ 263,531 | $ 505,055 | $ 19,972 | $ 788,558 |

See Accompanying Notes to Financial Statements

# COUNCIL OF CO-OWNERS OF FAIRLINGTON MEADOWS
## STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

| | 2021 | 2020 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net Income (Loss) | $ (4,929) | $ 11,079 |
| Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities | | |
| Amortization - Cable Income | (2,565) | (1,282) |
| Deferred Tax Expense (Benefit) | (10,504) | - |
| Depreciation | 4,586 | 3,058 |
| Decrease (Increase) in: | | |
| Assessments Receivable | (4,049) | (823) |
| Accrued Interest | 1,024 | 1,587 |
| Income Taxes Receivable | (1,365) | (3,426) |
| Prepaid Insurance | 14,747 | (14,747) |
| Prepaid Expenses | (157) | (69) |
| Increase (Decrease) in: | | |
| Accounts Payable | (8,353) | (20,890) |
| Deferred Insurance Proceeds | (14,262) | 5,847 |
| Deferred Cable Income | - | 42,750 |
| Prepaid Assessments | 15,764 | (8,594) |
| Net Cash Flows from Operating Activities | $ (10,063) | $ 14,490 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Received from Assessments (Reserves) | $ 455,750 | $ 475,000 |
| Received from Sale of Equipment (Reserves) | - | 1,300 |
| Disbursed for Reserve Expenditures | (853,122) | (1,209,412) |
| Received from Interest-Bearing Deposits | 160,000 | 505,000 |
| Net Cash Flows from Investing Activities | $ (237,372) | $ (228,112) |
| Net Change in Cash and Cash Equivalents | $ (247,435) | $ (213,622) |
| Cash and Cash Equivalents at Beginning of Year | 598,495 | 812,117 |
| Cash and Cash Equivalents at End of Year | $ 351,060 | $ 598,495 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:** | | |
| Cash Paid for Income Taxes | $ 17,500 | $ 8,500 |

See Accompanying Notes to Financial Statements

NOTE 1 - NATURE OF OPERATIONS:

The Condominium is an association organized under the laws of the Commonwealth of Virginia for the purposes of maintaining and preserving the common property of the Condominium. The Association is located in Arlington, Virginia and consists of 342 units. The Association's Board of Directors administers the condominium operations.

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 financial statements because those properties are owned by the individual unit owners in common and not by the Association. Common property includes, but is not limited to, the exterior structures and mechanical equipment.

D) Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, 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.

F) Depreciation - Fixed assets are carried at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Items capitalized are depreciated through the statement of income.

## 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 The Falcon Group during 2019. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on the study.

The study recommends a contribution to replacement reserves of $192,494 for 2021. For 2021, the Association budgeted to contribute $445,750 to replacement 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, 2021 and 2020, the Association had designated $505,055 and $876,731, 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 as an exempt condominium or as an association taxable as a corporation. As an exempt condominium, 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 2021 and 2020, 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 Commonwealth of Virginia.

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of December 31, 2021, the Association maintained its funds in the following manner:

| Institution | Cash and Cash Equivalents | Interest-Bearing Deposits |
|---|---|---|
| Pacific Premier | $ 181,362 | $ - |
| Morgan Stanley (Various Institutions) | 169,698 | 570,000 |
| Totals | $ 351,060 | $ 570,000 |

Balances at banks are insured by the FDIC for up to $250,000 per financial institution. Amounts in excess of the insured limits were $0 and $59,384 as of December 31, 2021 and 2020, respectively. The Association's management agent has obtained excess insurance coverage for the Pacific Premier accounts to cover the funds in excess of the FDIC insurance limit of $59,384 held at Pacific Premier as of December 31, 2020.

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:

At December 31, 2021 and 2020, the Association had delinquent assessments of $5,502 and $1,453, respectively. It is the opinion of the board of directors that the Association will ultimately prevail against members with delinquent assessments and, accordingly, no allowance for uncollectible accounts is deemed necessary.

NOTE 7 - VEHICLE - NET:

The Association purchased a vehicle during 2020. The vehicle is being depreciated over an estimated useful life of five years using the straight-line method. The depreciation expense for 2021 and 2020 was $4,586 and $3,058, respectively.

NOTE 7 - VEHICLE - NET: (CONTINUED)

| | 2021 | 2020 |
|---|---|---|
| Vehicle | $ 22,932 | $ 22,932 |
| Less: Accumulated Depreciation | (7,644) | (3,058) |
| Vehicle - Net | $ 15,288 | $ 19,874 |

NOTE 8 - DEFERRED CABLE INCOME:

The Association signed a 10-year marketing agreement with a vendor that gives that vendor the exclusive use of the home run wiring and non-exclusive use of home wiring. As part of the agreement the Association received a marketing commission equal to $75/unit for a total of $25,650. Upon early termination of the agreement, the Association shall refund to the vendor a portion of the Per Unit compensation paid by the vendor up to the date of termination in an amount equal to the total per unit compensation paid prior to the date of termination, divided by the number of years in the term of the agreement, multiplied by the number of years remaining in the term of the agreement as of termination date of this agreement. Therefore, this fee has been deferred and will be recognized as portions of the fee become non-refundable to the vendor. As of December 31, 2021, $21,803 remained in the deferred cable income related to this agreement.

The Association signed another 10-year marketing agreement with a different vendor that gives that vendor the non-exclusive right to provide voice, internet and video services to the Association. As part of the agreement the Association received a marketing commission equal to $50/unit for a total of $17,100. Upon early termination of the agreement during the first or second year, the Association shall refund 100% of the marketing fees. In the event the termination occurs in third year after payment, the Association will refund 90% of the marketing fees. If terminated during the fourth year, the Association will refund 75% and 50% will be refunded if terminated after 4 years. Therefore, this fee has been deferred and will be recognized as portions of the fee become non-refundable to the vendor. As of December 31, 2021, no income had been recognized, and $17,100 remained in the deferred cable income related to this agreement.

NOTE 9 - OPERATING RESERVE:

The Association's legal documents require the Association to maintain an operating reserve account in an amount equal to 25% of the current annual assessments. For 2021 and 2020, the Association budgeted to contribute $10,000 and $40,000, respectively, to this reserve. As of December 31, 2021 and 2020, the Association had designated $263,531 and $253,531, respectively, as an operating reserve. This reserve was funded by cash and interest-bearing deposits.

## NOTE 10 - RELATED PARTY TRANSACTIONS:

The Association is managed by Community Management Corporation (CMC). CMC is owned by Associa. Officers of Associa are stockholders in Pacific Premier Bank. In addition, until May 28, 2020, the President/Chief Executive Officer of Associa served on the bank's board of directors. The Association maintains funds at Pacific Premier Bank.

## NOTE 11 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 30, 2022, the date the financial statements were available to be issued.

Subsequent to year-end, the Association undertook the following projects, which are being funded through replacement reserves:

- Main and wading pool resurfacing in the amount of $28,000
- Exterior painting of courts four through seven in the amount of $104,280
- Slate roof replacement in the amount of $68,976

The Association incurred additional replacement reserve expenditures of $176,428 subsequent to year-end.

COUNCIL OF CO-OWNERS OF FAIRLINGTON MEADOWS
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2021
(UNAUDITED)

The Association had a replacement reserve study conducted by The Falcon Group during 2019 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.

| Component | 2019 Estimated Remaining Useful Life (Years) | 2019 Estimated Replacement Cost |
|---|---|---|
| Building | 1 - 60 | $ 1,986,020 |
| Recreation | 1 - 25 | 501,366 |
| Site | 0 - 25 | 1,194,474 |