

**Principals**

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**Independent Auditor's Report**

To the Board of Directors of  
Water's Edge, A Condominium

**Opinion**

We have audited the accompanying financial statements of Water's Edge, A Condominium, 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 Water's Edge, A Condominium 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 Water's Edge, A Condominium 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 Water's Edge, A Condominium'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 Water's Edge, A Condominium 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 Water's Edge, A Condominium 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 14 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  
September 29, 2022

WATER'S EDGE, A CONDOMINIUM  
BALANCE SHEETS  
DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 326,033	\$ 384,894
Interest-Bearing Deposits	1,075,000	975,000
Investments - Debt Securities	-	99,968
Assessments Receivable	4,120	14,791
Income Taxes Receivable	20	15
Accounts Receivable - Other	2,992	1,502
Accrued Interest	1,601	3,623
Prepaid Expenses	21,920	20,364
Deferred Taxes	14,260	-
Deposit	<u>420</u>	<u>420</u>
 Total Assets	 <u>\$ 1,446,366</u>	 <u>\$ 1,500,577</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 32,279	\$ 156,799
Prepaid Assessments	13,571	13,577
Note Payable	<u>1,205,742</u>	<u>1,332,046</u>
Total Liabilities	<u>\$ 1,251,592</u>	<u>\$ 1,502,422</u>
 Operating Reserve	 \$ 8,500	 \$ 40,000
Replacement Reserves (Deficit)	(25,632)	(218,701)
Unappropriated Members' Equity	<u>211,906</u>	<u>176,856</u>
Total Members' Equity (Deficit)	<u>\$ 194,774</u>	<u>\$ (1,845)</u>
 Total Liabilities and Members' Equity	 <u>\$ 1,446,366</u>	 <u>\$ 1,500,577</u>

See Accompanying Notes to Financial Statements

WATER'S EDGE, A CONDOMINIUM  
STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
<u>INCOME:</u>		
Assessments	\$ 849,660	\$ 849,660
Interest	9,894	16,282
Easement	3,140	-
Deferred Tax Benefit	14,260	-
Other	1,848	194
Total Income	\$ 878,802	\$ 866,136
 <u>EXPENSES:</u>		
Management	\$ 45,466	\$ 47,609
Legal, Audit and Tax Preparation	16,330	28,783
Insurance	74,482	72,169
Office	10,599	5,942
Administrative	2,639	2,222
Electricity	6,249	5,887
Water and Sewer	72,488	67,946
Pool	28,002	19,397
Grounds Upkeep	34,032	33,036
Lake Maintenance	7,632	8,039
Landscaping and Trees	7,346	12,001
Snow Removal	4,077	415
Trash Removal	28,452	27,634
Exterminating	2,645	1,790
Common Area Repairs	3,299	6,619
Roof and Gutters	17,858	15,729
Plumbing	5,450	4,709
Building Repairs	50,300	30,764
Maintenance Payroll and Related	75,503	71,136
Bad Debt	7,227	475
Income Taxes	-	120
Total Expenses	\$ 500,076	\$ 462,422
Net Income before Contribution to Reserves	\$ 378,726	\$ 403,714
Contribution to Reserves	(343,676)	(350,026)
Net Income	\$ 35,050	\$ 53,688

See Accompanying Notes to Financial Statements

WATER'S EDGE, A CONDOMINIUM  
STATEMENTS OF MEMBERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>Operating Reserve</u>	<u>Replacement Reserves (Deficit)</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity (Deficit)</u>
Balance as of December 31, 2019	\$ 40,000	\$ 137,046	\$ 123,168	\$ 300,214
Additions:				
Contribution to Reserves		350,026		350,026
Net Income			53,688	53,688
Deductions:				
Chimneys		(3,891)		(3,891)
Roofs		(3,900)		(3,900)
Loan Interest		(70,341)		(70,341)
Engineering - Decks		(63,623)		(63,623)
Deck Replacements		(564,018)		(564,018)
Balance as of December 31, 2020	\$ 40,000	\$ (218,701)	\$ 176,856	\$ (1,845)
Additions:				
Contribution to Reserves		343,676		343,676
Net Income			35,050	35,050
Deductions:				
Plumbing - Valves	(31,500)			(31,500)
Patios		(19,372)		(19,372)
Loan Interest		(64,114)		(64,114)
Engineering - Decks		(26,586)		(26,586)
Deck Replacements		(40,535)		(40,535)
Balance as of December 31, 2021	<u>\$ 8,500</u>	<u>\$ (25,632)</u>	<u>\$ 211,906</u>	<u>\$ 194,774</u>

See Accompanying Notes to Financial Statements

WATER'S EDGE, A CONDOMINIUM  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 35,050	\$ 53,688
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Investment Discount Amortization	(32)	-
Deferred Tax Expense (Benefit)	(14,260)	-
Bad Debt Expense	7,227	475
Decrease (Increase) in:		
Assessments Receivable	3,444	(3,729)
Income Taxes Receivable	(5)	3,188
Accounts Receivable - Other	(1,490)	-
Accrued Interest	2,022	5,621
Prepaid Expenses	(1,556)	(10,857)
Increase (Decrease) in:		
Accounts Payable	(12,557)	18,170
Prepaid Assessments	(6)	1,910
Net Cash Flows from Operating Activities	\$ 17,837	\$ 68,466
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments and Interest (Reserves)	\$ 343,676	\$ 350,026
Disbursed for Reserve Expenditures	(294,070)	(977,454)
Received from Interest-Bearing Deposits	500,000	1,185,000
Disbursed for Interest-Bearing Deposits	(600,000)	(1,425,000)
Received from Investments	100,000	-
Disbursed for Investments	-	(99,968)
Net Cash Flows from Investing Activities	\$ 49,606	\$ (967,396)

See Accompanying Notes to Financial Statements

WATER'S EDGE, A CONDOMINIUM  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020  
(CONTINUED)

	<u>2021</u>	<u>2020</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Disbursed for Note Principal Payments	\$ <u>(126,304)</u>	\$ <u>(119,877)</u>
Net Cash Flows from Financing Activities	\$ <u>(126,304)</u>	\$ <u>(119,877)</u>
Net Change in Cash and Cash Equivalents	\$ (58,861)	\$ (1,018,807)
Cash and Cash Equivalents at Beginning of Year	<u>384,894</u>	<u>1,403,701</u>
Cash and Cash Equivalents at End of Year	<u>\$ 326,033</u>	<u>\$ 384,894</u>
 <u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 5</u>	<u>\$ 275</u>
Cash Paid for Interest	<u>\$ 64,614</u>	<u>\$ 71,041</u>

See Accompanying Notes to Financial Statements



WATER S EDGE, A CONDOMINIUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020

NOTE 1 - NATURE OF OPERATIONS:

Water s Edge, A Condominium was established in 1984 when the Declaration was recorded by the declarant. 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 Falls Church, Virginia and consists of 119 units. The 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 is 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 developer and related improvements to such property are not recorded in the Association's financial statements because the property is owned by the individual unit owners in common and not by the Association. Common property consists of the buildings, streets and parking lots, grounds, pool, bathhouse, tennis courts and a lake.

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 date of three months or less to be cash equivalents.

WATER S EDGE, A CONDOMINIUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020  
(CONTINUED)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

F) Investments - The Association's marketable securities have been classified and accounted for either as available-for-sale or held-to-maturity. Debt securities are classified as held-to-maturity when the Association has the positive intent and the ability to hold the securities to maturity. Securities not classified as held-to-maturity are classified as available-for-sale. The cost of securities sold is based upon the specific identification method. The Association reviews its marketable securities annually to determine if any security has experienced an other-than-temporary decline in fair value. If a determination is made that the decline is other-than-temporary, the Association writes down the investment to its market value and records the related write-down as an investment loss in its 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 Miller Dodson Associates, Inc. in 2018. 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 \$309,148 for 2021. During 2021, the Association budgeted to contribute \$333,805 to reserves. In addition, the Association elected to contribute interest income of \$9,871 to reserves during 2021.

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 a deficit balance in replacement reserves of \$25,632 and \$218,701, respectively.

WATER S EDGE, A CONDOMINIUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020  
(CONTINUED)

NOTE 4 - INCOME TAXES:

For income tax purposes, the Association may elect annually to file either 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 tax was 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. 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.

In accordance with accounting standards, a deferred tax asset has been recorded in the financial statements. Deferred assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. That is, the interest expense deductions currently exceed taxable income, and a deferred tax asset will be shown until this excess is applied to future years' taxable income.

The Association had a non-membership loss carryforward of \$55,401 and \$0 as of December 31, 2021 and 2020, respectively. This is related to the interest expense incurred on the note payable. The loss carryforward does not expire. As of December 31, 2021 and 2020, the Association had a deferred tax asset of \$14,260 and \$0, respectively.

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

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

<u>Institution</u>	<u>Cash and Cash Equivalents</u>	<u>Interest- Bearing Deposits</u>
AXOS	\$ 42,797	\$ -
Morgan Stanley (Various Institutions)	283,236	1,075,000
Totals	<u>\$ 326,033</u>	<u>\$ 1,075,000</u>

WATER S EDGE, A CONDOMINIUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020  
(CONTINUED)

NOTE 6 - ASSESSMENTS RECEIVABLE:

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.

	2021	2020
Assessments Receivable	\$ 11,347	\$ 14,791
Less: Allowance for Doubtful Assessments	(7,227)	-
Assessments Receivable - Net	\$ 4,120	\$ 14,791

NOTE 7 - INVESTMENTS - DEBT SECURITIES:

Held-to-maturity debt securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. In accordance with ASC 820-10, the fair value of the debt securities was obtained using Level 1 Inputs. The amortized cost, gross unrealized gains and losses, and fair value of the held-to-maturity debt securities are summarized below:

	<u>Held-to-Maturity Debt Securities</u>			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2020</u>				
U.S. Treasury Obligations	\$ 99,968	\$ -	\$ (2)	\$ 99,966
Total Held-to-Maturity Debt Securities	\$ 99,968	\$ -	\$ (2)	\$ 99,966

During 2021, the Association's investments in debt securities matured at face value of \$100,000.

NOTE 8 - NOTE PAYABLE:

During 2019, the Association obtained a promissory note from NCB for \$1,500,000. The proceeds funded the 2019 and 2020 deck/balcony replacement project costs. The terms of the note are for monthly payments of \$15,910 including interest at 5%. The note is secured by all future assessments and all business assets and matures on July 1, 2029.

WATER'S EDGE, A CONDOMINIUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020  
(CONTINUED)

NOTE 8 - NOTE PAYABLE: (CONTINUED)

The note payable balance as of December 31, 2021 and 2020 was \$1,205,742 and \$1,332,046, respectively.

Principal curtailment of the amount borrowed for the next five years is as follows:

2022	\$	133,666
2023		140,505
2024		147,694
2025		155,250
2026		163,193
Thereafter		465,434
Total	\$	<u>1,205,742</u>

NOTE 9 - OPERATING RESERVE:

The Association established an operating reserve to offset prior year operating deficits and to build funds for unforeseen expenditures. As of December 31, 2021 and 2020, the Association had designated \$8,500 and \$40,000, respectively, for the operating reserve. These designated reserves were funded by cash and interest-bearing deposits.

NOTE 10 - REIMBURSED PAYROLL AND RELATED SERVICES:

The Association's management agent utilizes a central management payroll system, whereby payroll returns were filed under the management agent's name and federal identification number. In addition to the payment of management fees, the Association reimbursed management for wages, payroll taxes, workers' compensation and health insurance for employees that performed work for the Association.

NOTE 11 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through September 29, 2022, the date the financial statements were available to be issued.

Subsequent to year end, the Association incurred replacement reserve expenditures of approximately \$157,000.

WATER S EDGE, A CONDOMINIUM  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2021  
(UNAUDITED)

The Association had a replacement reserve study conducted by Miller Dodson Associates, Inc. in 2018 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>2018</u> <u>Estimated</u> <u>Remaining</u> <u>Useful Life</u> <u>(Years)</u>	<u>2018</u> <u>Estimated</u> <u>Replacement</u> <u>Cost</u>
Site Items	0-26	\$ 418,087
Building Exteriors	0-17	1,801,685
Decks	0-20	2,444,687
Swimming Pool	0-19	249,073
Tennis Courts	2-40	89,461