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Independent Auditor's Report

To the Board of Directors of
The Second Gate Post Estates Homeowners Association

Report on the Financial Statements

We have audited the accompanying financial statements of The Second Gate Post Estates Homeowners Association, 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 The Second Gate Post Estates Homeowners Association 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.

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 26, 2021

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 60,956	\$ 58,576
Assessments Receivable - Net	-	325
Prepaid Expenses	<u>1,703</u>	<u>1,689</u>
Total Assets	<u>\$ 62,659</u>	<u>\$ 60,590</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 43	\$ 319
Prepaid Assessments	<u>29,875</u>	<u>19,625</u>
Total Liabilities	<u>\$ 29,918</u>	<u>\$ 19,944</u>
Replacement Reserves	\$ 15,000	\$ 15,000
Unappropriated Members' Equity	<u>17,741</u>	<u>25,646</u>
Total Members' Equity	<u>\$ 32,741</u>	<u>\$ 40,646</u>
Total Liabilities and Members' Equity	<u>\$ 62,659</u>	<u>\$ 60,590</u>

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
<u>INCOME:</u>		
Assessments	\$ 56,000	\$ 59,500
Disclosure Documents	665	455
Recovery of Bad Debt	1,075	-
Other	494	1,993
Total Income	\$ 58,234	\$ 61,948
 <u>EXPENSES:</u>		
Legal, Audit and Tax Preparation	\$ 2,886	\$ 2,993
Insurance	1,899	1,923
Administrative	817	507
Social Activities	100	890
Trash Removal	46,696	46,392
Grounds Maintenance	13,741	5,969
Total Expenses	\$ 66,139	\$ 58,674
Net Income (Loss)	\$ (7,905)	\$ 3,274

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
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	\$ 15,000	\$ 22,372	\$ 37,372
Addition:			
Net Income	<u> </u>	<u>3,274</u>	<u>3,274</u>
Balance as of December 31, 2019	\$ 15,000	\$ 25,646	\$ 40,646
Deduction:			
Net Loss	<u> </u>	<u>(7,905)</u>	<u>(7,905)</u>
Balance as of December 31, 2020	<u>\$ 15,000</u>	<u>\$ 17,741</u>	<u>\$ 32,741</u>

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
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)	\$ (7,905)	\$ 3,274
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Bad Debt Expense (Recovery)	(1,075)	-
Decrease (Increase) in:		
Assessments Receivable	1,400	(310)
Prepaid Expenses	(14)	26
Increase (Decrease) in:		
Accounts Payable	(276)	(1,400)
Prepaid Assessments	10,250	19,625
Net Cash Flows from Operating Activities	<u>\$ 2,380</u>	<u>\$ 21,215</u>
Cash and Cash Equivalents at Beginning of Year	<u>58,576</u>	<u>37,361</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 60,956</u></u>	<u><u>\$ 58,576</u></u>

See Accompanying Notes to Financial Statements

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 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 Association. The Association consists of 140 homes located in Centreville, Virginia. The Board of Directors administers the Association 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 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 entrance features.

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.

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES:

The Association's governing documents do not require that funds be accumulated for future major repairs and replacements; however, the Association has elected to set aside funds. Accumulated funds are generally not available for expenditures for normal operations.

The Association had a replacement reserve study conducted by the Board of Directors during 2016. The Board of Directors updated this study in 2021. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on the 2021 study.

The 2016 study does not recommend a contribution to reserves for 2020. For 2020, the Association did not budget to contribute to reserves. As of December 31, 2020, the designated reserve totals \$15,000. The Board of Directors believes that this balance plus amounts in excess operating funds are adequate and no additional contributions to reserves are necessary.

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 \$15,000 for replacement reserves. These designated reserves were funded by cash and cash equivalents.

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 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 2020 and 2019, the income taxes were calculated using the exempt method, which resulted in no income tax liability.

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(CONTINUED)

NOTE 4 - INCOME TAXES: (CONTINUED)

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 CASH EQUIVALENTS:

As of December 31, 2020, the Association maintained its funds totaling \$60,956 in a Wells Fargo checking account.

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.

	2020	2019
Assessments Receivable	\$ -	\$ 1,400
Less: Allowance for Doubtful Assessments	-	(1,075)
Assessments Receivable - Net	\$ -	\$ 325

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 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

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(CONTINUED)

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

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 and contract liabilities (special assessments received in advance), 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 26, 2021, the date the financial statements were available to be issued.

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2020
(UNAUDITED)

The Association had a replacement reserve study conducted by the Board of Directors during 2021 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.

<u>Component</u>	<u>2021 Estimated Remaining Useful Life (Years)</u>	<u>2021 Estimated Replacement Cost</u>
Stone Walls	15	\$ 12,000
Trees and Shrubs	Indefinite	8,000
Irrigation System	20	7,780
Entryway Fence	Indefinite	2,000