

**Principals**

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Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of The Second Gate Post Estates Homeowners Association, 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 The Second Gate Post Estates Homeowners Association 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 The Second Gate Post Estates Homeowners Association 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 The Second Gate Post Estates Homeowners Association'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 The Second Gate Post Estates Homeowners Association'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 The Second Gate Post Estates Homeowners Association'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 11 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
January 12, 2023

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
BALANCE SHEETS
DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 54,903	\$ 60,956
Accounts Receivable - Other	336	-
Prepaid Expenses	<u>1,660</u>	<u>1,703</u>
Total Assets	<u>\$ 56,899</u>	<u>\$ 62,659</u>
 <u>LIABILITIES AND MEMBERS' EQUITY</u>		
Accounts Payable	\$ 1,226	\$ 43
Prepaid Assessments	<u>30,550</u>	<u>29,875</u>
Total Liabilities	<u>\$ 31,776</u>	<u>\$ 29,918</u>
Replacement Reserves	\$ 15,000	\$ 15,000
Unappropriated Members' Equity	<u>10,123</u>	<u>17,741</u>
Total Members' Equity	<u>\$ 25,123</u>	<u>\$ 32,741</u>
Total Liabilities and Members' Equity	<u>\$ 56,899</u>	<u>\$ 62,659</u>

See Accompanying Notes to Financial Statements

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>INCOME:</u>		
Assessments	\$ 59,500	\$ 56,000
Disclosure Documents	1,330	665
Recovery of Bad Debt	-	1,075
Other	<u>185</u>	<u>494</u>
Total Income	<u>\$ 61,015</u>	<u>\$ 58,234</u>
 <u>EXPENSES:</u>		
Legal, Audit and Tax Preparation	\$ 5,780	\$ 2,886
Insurance	1,907	1,899
Administrative	1,143	817
Social Activities	1,497	100
Trash Removal	46,772	46,696
Grounds Maintenance	<u>11,534</u>	<u>13,741</u>
Total Expenses	<u>\$ 68,633</u>	<u>\$ 66,139</u>
Net Income (Loss)	<u>\$ (7,618)</u>	<u>\$ (7,905)</u>

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</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	\$ 15,000	\$ 17,741	\$ 32,741
Deduction: Net Loss	<u> </u>	<u>(7,618)</u>	<u>(7,618)</u>
Balance as of December 31, 2021	<u>\$ 15,000</u>	<u>\$ 10,123</u>	<u>\$ 25,123</u>

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	\$ (7,618)	\$ (7,905)
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
Accounts Receivable - Other	(336)	-
Prepaid Expenses	43	(14)
Increase (Decrease) in:		
Accounts Payable	1,183	(276)
Prepaid Assessments	675	10,250
Net Cash Flows from Operating Activities	<u>\$ (6,053)</u>	<u>\$ 2,380</u>
Cash and Cash Equivalents at Beginning of Year	<u>60,956</u>	<u>58,576</u>
Cash and Cash Equivalents at End of Year	<u>\$ 54,903</u>	<u>\$ 60,956</u>

See Accompanying Notes to Financial Statements

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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 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.

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(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 2021. For 2021, the Association did not budget to contribute to reserves. As of December 31, 2021, 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, 2021 and 2020, 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 2021 and 2020, 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, 2021 AND 2020
(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, 2021, the Association maintained its funds totaling \$54,903 in a Wells Fargo checking account.

NOTE 6 - ASSESSMENTS RECEIVABLE:

At December 31, 2021 and 2020, the Association had delinquent assessments of \$0; accordingly, no allowance for uncollectible accounts is deemed necessary.

NOTE 7 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through January 12, 2023, 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, 2021
(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