

The Second Gate Post Estates Homeowners Association
Financial Statements
For the Year Ended December 31, 2023



NEWMAN
Certified Public Accountant, PC

**The Second Gate Post Estates Homeowners Association
Financial Statements
For the Year Ended December 31, 2023**

TABLE OF CONTENTS

Independent Auditor’s Report	3-4
Balance Sheet.....	.5
Statement of Revenues and Expenses and Changes in Fund Balances6
Statement of Cash Flows7
Notes to Financial Statements	8-11
Supplementary Information12



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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 sheet as of December 31, 2023, and the related statements of revenues, expenses and changes in fund balances and cash flows for the year 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, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter - Future Major Repairs and Replacements

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 5 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Responsibilities 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 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 judgement 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 judgement, 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 supplementary information on Future Major Repairs and Replacements 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 inquires 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.

Newman Certified Public Accountant, PC.

Newman Certified Public Accountant, PC

Fairfax, Virginia

December 19, 2024

The Second Gate Post Estates Homeowners Association
Balance Sheet
December 31, 2023

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 32,498	\$ -	\$ 32,498
Deposits	8	-	8
Prepaid expenses	1,677	-	1,677
Due from (to) fund	(15,000)	15,000	-
Total assets	<u>\$ 19,183</u>	<u>\$ 15,000</u>	<u>\$ 34,183</u>
Liabilities			
Accounts payable	\$ 1,040	\$ -	\$ 1,040
Prepaid assessments	18,360	-	18,360
Contract liabilities (assessments received in advance - replacement fund)	-	15,000	15,000
Total liabilities	<u>19,400</u>	<u>15,000</u>	<u>34,400</u>
Fund balances	<u>(217)</u>	<u>-</u>	<u>(217)</u>
Total liabilities and fund balances	<u>\$ 19,183</u>	<u>\$ 15,000</u>	<u>\$ 34,183</u>

The Second Gate Post Estates Homeowners Association
Statement of Revenues and Expenses and Changes in Fund Balances
For the Year Ended December 31, 2023

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues			
Owners' assessments	\$ 63,000	\$ -	\$ 63,000
Interest	20	-	20
Other member income	931	-	931
Total revenues	<u>63,951</u>	<u>-</u>	<u>63,951</u>
Expenses			
Utilities			
Electricity	660	-	660
Water	1,415	-	1,415
Trash removal	52,055	-	52,055
	<u>54,130</u>	<u>-</u>	<u>54,130</u>
Common Area			
Landscape and irrigation	13,706	-	13,706
Common area repairs and maintenance	2,100	-	2,100
	<u>15,806</u>	<u>-</u>	<u>15,806</u>
Administrative			
Insurance	1,846	-	1,846
Legal and professional	500	-	500
Administrative expense	1,483	-	1,483
	<u>3,829</u>	<u>-</u>	<u>3,829</u>
Total expenses	<u>73,765</u>	<u>-</u>	<u>73,765</u>
Excess (deficit) of revenues over (under) expenses	(9,814)	-	(9,814)
Beginning fund balances	9,597	-	9,597
Ending fund balances	<u>\$ (217)</u>	<u>\$ -</u>	<u>\$ (217)</u>

The Second Gate Post Estates Homeowners Association
Statement of Cash Flows
For the Year Ended December 31, 2023

	Operating Fund	Replacement Fund	Total
Excess (deficit) of revenues over (under) expenses	\$ (9,814)	\$ -	\$ (9,814)
Adjustments to reconcile excess (deficit) of revenues over (under) expenses to net cash provided (used) by operating activities			
Decrease (Increase) in operating assets:			
Deposits	(8)	-	(8)
Prepaid expenses	(32)	-	(32)
Increase (Decrease) in operating liabilities:			
Accounts payable	(1,887)	-	(1,887)
Prepaid assessments	18,360	-	18,360
Total adjustments	16,433	-	16,433
Net cash provided (used) by operating activities	6,619	-	6,619
Cash provided (used) by investing activities:			
Net cash flows from investing activities	-	-	-
Cash provided (used) by financing activities:			
Net cash flows from financing activities	-	-	-
Net increase (decrease) in cash and cash equivalents	6,619	-	6,619
Beginning cash and cash equivalents	25,879	-	25,879
Ending cash and cash equivalents	\$ 32,498	\$ -	\$ 32,498
SUPPLEMENTAL DISCLOSURE			
Income taxes paid			\$ -
Interest paid			\$ -

The Second Gate Post Estates Homeowners Association
Notes to Financial Statements
For the Year Ended December 31, 2023

1. Organization

The Second Gate Post Estates Homeowners Association (the "Association") was incorporated on January 30, 1987, as a nonprofit corporation under the laws of Virginia for the purposes of maintaining and preserving common property. The Association consists of 14 residential homes and is located in Centreville, Virginia.

2. Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through December 19, 2024, the date that the financial statements were available to be issued.

3. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Board of Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - The fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund - The fund is used to accumulate financial resources designated for future major repairs and replacements.

Members Assessments and Allowance for Credit Losses

Association members are subject to monthly 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 operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on properties of owners 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 closely monitoring of outstanding assessment balances by management, member payment history of outstanding assessment balances, and susceptibility to factors outside the Association's control. The balances of assessments receivable as of the beginning and end of the year are \$0 and \$0, respectively. After the Board of Directors has exhausted all efforts to collect delinquent accounts, the Board of Directors may elect to write off uncollectible balances.

The Second Gate Post Estates Homeowners Association
Notes to Financial Statements
For the Year Ended December 31, 2023

Property and Equipment

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 those properties are owned by the individual unit owners in common and not by the Association.

Contract Liabilities (Assessments received in advance – replacement fund)

The Association recognizes replacement fund (reserves) revenue from members as related performance obligations are satisfied. A contract liability (assessments received in advance – replacement fund) is recorded when the Association has the right to receive payment in advance of satisfaction of performance obligations related to replacement reserve assessments. The balance of Contract Liabilities (assessments received in advance – replacement fund) as of the beginning and end of the year are \$15,000 and \$15,000, respectively.

Income Tax

The Association's policy is to record interest expense or penalties related to income tax in operating expenses.

Cash and Cash Equivalents

Cash and cash equivalents include the Association's cash, checking accounts, money market funds and investments in certificates of deposit with original maturities of 90 days or less.

4. Income Taxes

Common Interest Realty Associations are generally taxed either as a qualifying Internal Revenue Code (IRC) Section 528 homeowners' association or as a regular corporation subject to the special provisions of IRC Section 277 for membership organizations. For the current year, the Association has met IRC Section 528 eligibility requirements and has chosen to file Form 1120-H for its federal income tax return. The income tax filing determination is assessed for each tax year and only pertains to the tax year being evaluated.

IRC Section 528 requires that the Association separates all of its income and expense activity between three categories: exempt function, nonexempt function and capital. Taxable income includes net nonexempt function income, such as interest and other nonmember sourced income. In the determination of net taxable income, certain expenses were allocated to offset a portion of the Association's taxable income. The Form 1120-H tax rate is 30%.

The Association is also required to file either Virginia's Form 500 or Form 500EZ for its state income tax return subject to Title 58.1 of The Code of Virginia. The income tax rate on either form is 6%.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Association and has concluded that as of the year end, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions. The Internal Revenue Service and the Virginia Department of Taxation can examine the Association's income tax returns generally up to three years and three years, respectively. There are currently no audits in progress for any tax period

The Second Gate Post Estates Homeowners Association
Notes to Financial Statements
For the Year Ended December 31, 2023

5. Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate bank accounts and are generally not available for operating fund expenses.

The Board of Directors conducted a reserve study to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on this study.

The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or to levy special assessments, or it may delay major repairs and replacements until funds are available.

6. FASB ASC 606 Revenue Recognition

The Financial Accounting Standards Boards (FASB) issued new guidance that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standards (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, Real Estate – Common Interest Realty Associations (CIRA), Revenue Recognition, and requires the recognition of revenue when promised goods and 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 and services.

The Association adopted the requirements of the new guidance as of January 1, 2023, using the modified retrospective method of transition, which requires the cumulative effect of the changes related to the adoption be charged to the beginning balance. The Association applied the new guidance using the practical expedient in Topic 606 that 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 revenue and contract liabilities related to the replacement fund, as previously described.

Fund balance, as previously reported, January 1, 2023	\$ 24,597
Adjustment	(15,000)
Fund balance, as adjusted, January 1, 2023	<u>\$ 9,597</u>

The effect of the adoption is a decrease in December 31, 2023, replacement fund assessments and a recording of a contract liability (assessments received in advance – replacement fund). The Association has no customer contract modifications that had an effect on the Association's transition to the new guidance.

The Second Gate Post Estates Homeowners Association
Notes to Financial Statements
For the Year Ended December 31, 2023

The modified retrospective method requires us to disclose the effect of applying the new guidance on each item included in our December 31, 2023, financial statements. Following are the line items from our financial statements as of December 31, 2023, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance.

	<u>As previously reported</u>	<u>Effect of Adoption</u>	<u>As Adjusted</u>
Balance Sheet:			
Contract liabilities (assessments received in advance - replacement fund)	\$ -	\$ 15,000	\$ 15,000
Ending fund balance	\$ 14,783	\$ (15,000)	\$ (217)
Statement of Revenues and Expenses and Changes in Fund Balances:			
Regular assessments	\$ 63,000	\$ -	\$ 63,000
Excess (deficit) of revenues over (under) expenses	\$ (9,814)	\$ -	\$ (9,814)
Statement of Cash Flows:			
Excess (deficit) of revenues over (under) expenses	\$ (9,814)	\$ -	\$ (9,814)
Contract liabilities (assessments received in advance - replacement fund)	\$ -	\$ -	\$ -

7. Due From (To) Fund

The balance of the due from (to) fund accounts as of December 31, 2023, totaled \$15,000. The balance is comprised primarily of unpaid monthly budgeted Replacement Fund contributions from the Operating Fund.

The Second Gate Post Estates Homeowners Association
Supplementary Information on Future Major Repairs and Replacements
December 31, 2023
(Unaudited)

The Association's Board of Directors, in conjunction with a reserve study expert, conducted a reserve study for 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. Estimated current costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair and replacement.

The following information is based on the study and presents significant information about the components of common property.

Study Component	Estimated remaining useful lives (years)	Estimated future replacement costs
Stone walls	15	\$ 12,000
Tree and shrubs	0	8,000
Irrigation system	20	7,780
Entryway fence	0	2,000
		<u>\$ 29,780</u>
Interest rate		<u>0.00%</u>
Inflation rate		<u>0.00%</u>

See the Balance Sheet for replacement fund cash, cash equivalents and investments balances at December 31, 2023