

THE SECOND GATE POST ESTATES
HOMEOWNERS ASSOCIATION
UNAUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
[Submitted for Audit March 26, 2008]

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<u>INCOME:</u>		
Assessments	\$ 56,000	\$ 56,000
Late Charge Revenue	332	0
Interest	1,006	201
Disclosure Documents	600	800
Other	<u>108</u>	<u>900</u>
Total Income	<u>58,0446</u>	<u>57,901</u>
 <u>EXPENSES</u>		
Audit and Tax Preparation	1,300	1,025
Insurance	843	1,145
Administrative	345	1,889
Legal	4,807	0
Social Activities	1,435	2,761
Trash Removal	41,376	43,624
Electricity	262	271
Grounds Maintenance	15,036	9,984
Other	<u>163</u>	<u>0</u>
Total Expenses	<u>65,567</u>	<u>60,699</u>
Net Income (Deficit)	<u>\$ (7,521)</u>	<u>\$ (2, 798)</u>

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 22,456	\$ 15,332
Interest-Bearing Deposits	6,391	16,182
Interest Receivable	107	23
Prepaid Expenses	<u>988</u>	<u>479</u>
Total Assets	<u>\$ 29,942</u>	<u>\$ 32,016</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
Accounts Payable	\$ 605	\$ 854
Prepaid Assessments	<u>23,800</u>	<u>18,100</u>
Total Liabilities	<u>24,405</u>	<u>18,954</u>
Replacement Reserves	3,364	3,364
Unappropriated Members' Equity	<u>2,173</u>	<u>9,698</u>
Total Members' Equity	<u>5,537</u>	<u>13,062</u>
Total Liabilities and Members' Equity	<u>\$ 29,942</u>	<u>\$ 32,016</u>

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
STATEMENT OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balances as of December 31, 2005	\$ 3,364	\$ 12,496	\$ 15,860
Addition:			
Net Deficit		<u>(2,798)</u>	<u>(2,798)</u>
Balance as of December 31, 2006	3,364	<u>9,698</u>	<u>13,062</u>
Addition:			
Net Deficit		<u>(7,521)</u>	<u>(7,521)</u>
Balance as of December 31, 2007	\$ 3,364	<u>\$ 2,173</u>	<u>\$ 5,537</u>

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (deficit)	\$ (7,521)	\$ (2,798)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Decrease (Increase) in:		
Assessments Receivable	---	---
Interest Income Receivable	(84)	---
Prepaid Expenses	(509)	5
Increase (Decrease) in:		
Accounts Payable	(249)	230
Prepaid Assessments	<u>5,700</u>	<u>2,350</u>
Net Cash Flows From Operating Activities	<u>(2,663)</u>	<u>(236)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
(Disbursed) Redeemed for Interest-Bearing Deposits	<u>9,787</u>	<u>(10,099)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	7,124	(10,335)
Cash and Cash Equivalents at Beginning of Year	<u>15,332</u>	<u>25,667</u>
Cash and Cash Equivalents at End of Year	<u>\$ 22,456</u>	<u>\$ 15,332</u>

THE SECOND GATE POST ESTATES HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 1 – NATURE OF OPERAITONS:

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 basis of accounting in which revenues are recognized when earned and expenses when incurred, not necessarily when received or paid.
- B) Member Assessments – Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from homeowners. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in future years.
- C) Common Property – Real property and common area acquired from the developer 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, 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.

NOTE 3 – REPLACEMENT RESERVES:

The Association's governing documents do not require that funds be accumulated for future major repairs and replacements. Accumulated funds are generally not available for expenditures for normal operations.

The Association has not estimated the remaining useful lives and replacement costs of the common property, which is primarily 5 acres of undeveloped in the middle of the property and the front entrance. The association maintains the stone wall and other depreciable property at the front entrance.

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 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 Association may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. As of December 31, 2006 and 2005, the Association had designated \$3,364 for replacement reserves. These designated reserves were funded by cash and interest-bearing deposits and are allocated for the front entrance.

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 exemptions, subject to the limitation that operating expenses are deductible only to the extent of

income from members. For 2005 and 2004, the income tax expense presented in the financial statements was calculated under the exempt method.

NOTE 5 – CASH AND INTEREST-BEARING DEPOSITS:

As of December 31, 2007, the Association maintained its funds in the following manner;

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Interest-Bearing Deposits</u>	<u>Total</u>
Wachovia	Checking	\$ 22,455.74		\$ 22,455.74
Wachovia	Certificates of Deposit		\$ 6,390.61	6,390.61
	Totals	<u>\$ 22,455.74</u>	<u>\$ 6,390.61</u>	<u>\$28,846.35</u>