



**Principals**

Howard A. Goldklang, CPA, MBA  
Donald E. Harris, CPA  
Anne M. Sheehan, CPA  
S. Gail Moore, CPA  
Jeremy W. Powell, CPA  
Renee L. Watson, CPA

1801 Robert Fulton Drive, Suite 200  
Reston, VA 20191

**Associate Principals**

Matthew T. Stiefvater, CPA  
Sheila M. Lewis, CPA

**Managers**

Andrew T. Plaugher, CPA  
Michele S. Lizama, CPA  
Jennifer L. Murray, CPA

Independent Auditor's Report

To the Board of Directors of  
Caroline Oaks Homeowners Association

**Opinion**

We have audited the accompanying financial statements of Caroline Oaks Homeowners Association, which comprise the balance sheets as of December 31, 2022 and 2021, 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 Caroline Oaks Homeowners Association as of December 31, 2022 and 2021, 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 Caroline Oaks 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 Caroline Oaks 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 Caroline Oaks 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 Caroline Oaks 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  
July 19, 2023

CAROLINE OAKS HOMEOWNERS ASSOCIATION  
BALANCE SHEETS  
DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 65,567	\$ 33,232
Interest-Bearing Deposits	126,000	143,000
Assessments Receivable	880	55
Income Taxes Receivable	300	700
Prepaid Expenses	<u>545</u>	<u>276</u>
Total Assets	<u>\$ 193,292</u>	<u>\$ 177,263</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 2,147	\$ 2,140
Income Taxes Payable	6	-
Prepaid Assessments	<u>20,615</u>	<u>16,275</u>
Total Liabilities	<u>\$ 22,768</u>	<u>\$ 18,415</u>
Replacement Reserves	\$ 135,703	\$ 116,203
Unappropriated Members' Equity	<u>34,821</u>	<u>42,645</u>
Total Members' Equity	<u>\$ 170,524</u>	<u>\$ 158,848</u>
Total Liabilities and Members' Equity	<u>\$ 193,292</u>	<u>\$ 177,263</u>

CAROLINE OAKS HOMEOWNERS ASSOCIATION  
STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>INCOME:</u>		
Assessments	\$ 116,600	\$ 116,600
Interest	1,166	53
Late and Legal Fees	100	175
Resale Packages	<u>600</u>	<u>700</u>
Total Income	<u>\$ 118,466</u>	<u>\$ 117,528</u>
 <u>EXPENSES:</u>		
Management	\$ 7,874	\$ 7,434
Legal, Audit and Tax Preparation	8,209	2,990
Administrative	4,842	2,037
Insurance	1,343	1,407
Grounds	47,307	39,281
Trash Removal	22,484	20,515
Snow Removal	5,345	3,528
Electricity	2,540	2,631
Extermination	2,340	1,705
Income Taxes	<u>6</u>	<u>-</u>
Total Expenses	<u>\$ 102,290</u>	<u>\$ 81,528</u>
Net Income before Contribution to Reserves	\$ 16,176	\$ 36,000
Contribution to Reserves	<u>(24,000)</u>	<u>(29,000)</u>
Net Income (Loss)	<u>\$ (7,824)</u>	<u>\$ 7,000</u>

See Accompanying Notes to Financial Statements

CAROLINE OAKS HOMEOWNERS ASSOCIATION  
STATEMENTS OF MEMBERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2020	\$ 102,474	\$ 35,645	\$ 138,119
Additions:			
Contribution to Reserves	29,000		29,000
Net Income		7,000	7,000
Deductions:			
Arborist	(12,029)		(12,029)
Dog Signs	(342)		(342)
Reserve Study	(2,900)		(2,900)
Balance as of December 31, 2021	\$ 116,203	\$ 42,645	\$ 158,848
Addition:			
Contribution to Reserves	24,000		24,000
Deductions:			
Asphalt Repairs	(4,500)		(4,500)
Net Loss		(7,824)	(7,824)
Balance as of December 31, 2022	<u>\$ 135,703</u>	<u>\$ 34,821</u>	<u>\$ 170,524</u>

See Accompanying Notes to Financial Statements

CAROLINE OAKS HOMEOWNERS ASSOCIATION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	\$ (7,824)	\$ 7,000
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Decrease (Increase) in:		
Assessments Receivable	(825)	285
Income Taxes Receivable	400	(100)
Prepaid Expenses	(269)	-
Increase (Decrease) in:		
Accounts Payable	7	(97)
Income Taxes Payable	6	(21)
Prepaid Assessments	4,340	4,792
Net Cash Flows from Operating Activities	<u>\$ (4,165)</u>	<u>\$ 11,859</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 24,000	\$ 29,000
Disbursed for Reserve Expenditures	(4,500)	(15,271)
Received from Interest-Bearing Deposits	419,000	-
Disbursed for Interest-Bearing Deposits	(402,000)	(143,000)
Net Cash Flows from Investing Activities	<u>\$ 36,500</u>	<u>\$ (129,271)</u>
Net Change in Cash and Cash Equivalents	\$ 32,335	\$ (117,412)
Cash and Cash Equivalents at Beginning of Year	<u>33,232</u>	<u>150,644</u>
Cash and Cash Equivalents at End of Year	<u>\$ 65,567</u>	<u>\$ 33,232</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ -</u>	<u>\$ 300</u>

See Accompanying Notes to Financial Statements

CAROLINE OAKS HOMEOWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021

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 is located in Burke, Virginia and consists of 106 homes. The Association's Board of Directors administers the operations of the Association.

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 whether 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, lighting, playground equipment and fences.

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 interest-bearing deposits and investments with an original maturity date of three months or less to be cash equivalents.



CAROLINE OAKS HOMEOWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021  
(CONTINUED)

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 Reserve Advisors in 2021. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The 2021 study recommends a contribution to reserves of \$24,000 from assessments and \$3,211 from interest for 2022. For 2022, the Association budgeted to contribute \$24,000 to reserves.

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, 2022 and 2021, the Association had designated \$135,703 and \$116,203, respectively, for replacement reserves. These designated reserves were funded by cash and interest-bearing deposits.

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 2022 and 2021, the income taxes were calculated using the exempt method.

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.

CAROLINE OAKS HOMEOWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021  
(CONTINUED)

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of December 31, 2022, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Cash and Cash Equivalents</u>	<u>Interest-Bearing Deposits</u>
CIT	\$ 15,894	\$ -
Edward Jones (Various Institutions)	49,673	126,000
Totals	<u>\$ 65,567</u>	<u>\$ 126,000</u>

Cash and securities held at a SIPC member brokerage firm are insured by the SIPC for up to \$500,000, which includes \$250,000 limit for cash. The Association maintains funds in a brokerage account which are subject to SIPC limits.

NOTE 6 - ASSESSMENTS RECEIVABLE:

At December 31, 2022 and 2021, the Association had delinquent assessments of \$880 and \$55, respectively. It is the opinion of the board of directors that the Association will ultimately prevail against members with delinquent assessments and, 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 July 19, 2023, the date the financial statements were available to be issued.

Subsequent to year end, the Association expected to incur reserve expenditures of approximately \$36,000 for street maintenance project.

CAROLINE OAKS HOMEOWNERS ASSOCIATION  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2022  
(UNAUDITED)

The Association had a replacement reserve study conducted by Reserve Advisors in 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; 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>2021 Estimated Remaining Useful Life (Years)</u>	<u>2021 Estimated Replacement Cost</u>
Property Site Elements	1-30+	\$ 685,585