

# Goldklang, Cavanaugh & Associates, P.C.

## Certified Public Accountants

### Principals

Howard A. Goldklang, CPA, MBA  
Kevin D. Cavanaugh, CPA  
Donald E. Harris, CPA  
Anne M. Sheehan, CPA  
S. Gail Moore, CPA

### MEMBERS OF

American Institute of CPAs  
Virginia Society of CPAs  
Greater Washington Society of CPAs  
Maryland Society of CPAs  
Texas Society of CPAs

### Managers

Jamie L. Brodnax, CPA  
Allison A. Day, CPA  
Jeremy W. Powell, CPA  
Renee L. Watson, CPA

### Independent Auditor's Report

Board of Directors  
Lafayette Village Community Association, Inc.  
Annandale, Virginia

We have audited the accompanying Balance Sheet of Lafayette Village Community Association, Inc. as of December 31, 2007, and the related Statements of Income, Members' Equity, and Cash Flows for the year then ended. These financial statements are the responsibility of the Association. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Association, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because the Association did not properly record all cash activity during 2007, we were unable to perform a detailed testing of cash receipts for the year ended December 31, 2007.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to perform a detailed examination of cash receipts, the financial statements referred to above present fairly, in all material respects, the financial position of Lafayette Village Community Association, Inc. as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

#### Maryland

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#### Virginia and Administrative Office

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#### Texas

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Lafayette Village Community Association, Inc. raises funds for its operations and major repairs and replacement through assessment of its members. As of December 31, 2007, the Association had an Assessments Receivable balance of \$42,092 (before an allowance for bad debt of \$17,327). It is uncertain whether the receivables are actually collectible as of this report date. The inability to collect owner assessments impacts adversely on the Association's viability. In order for the association to maintain financial stability and to operate effectively, it must raise and be able to collect sufficient funds from its members to meet its operational and replacement reserve needs.

The supplementary information on future major repairs and replacements on page 10 is not a required part of the basic financial statements of Lafayette Village Community Association, Inc., but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

June 22, 2008

*Goldklang, Cavanaugh & Associates, P.C.*

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.  
BALANCE SHEET  
DECEMBER 31, 2007

ASSETS

Cash and Cash Equivalents	\$ 114,652
Interest-Bearing Deposits	225,642
Assessments Receivable - Net	24,765
Income Taxes Receivable	66
Accrued Interest	723
Prepaid Expenses	<u>2,411</u>
 Total Assets	 <u>\$ 368,259</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 1,051
Income Taxes Payable	91
Prepaid Assessments	<u>25,788</u>
Total Liabilities	<u>\$ 26,930</u>
 Replacement Reserves	 \$ 251,425
Unappropriated Members' Equity	<u>89,904</u>
Total Members' Equity	<u>\$ 341,329</u>
 Total Liabilities and Members' Equity	 <u>\$ 368,259</u>

See Accompanying Notes to Financial Statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.  
STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2007

INCOME:

Assessments	\$ 331,548
Late and Legal Fees	6,958
Violations	6,780
Interest	9,876
Other	<u>2,196</u>
Total Income	<u>\$ 357,358</u>

EXPENSES:

Management	\$ 33,148
Legal, Audit and Tax Preparation	11,573
Insurance	4,078
Postage	3,614
Recording Secretary	2,445
Administrative	1,382
Electricity - Security Lights	2,906
Pool Operations	41,376
Grounds Maintenance	77,950
Trash Removal	59,386
Snow Removal	2,850
Common Area Maintenance	2,663
Bad Debt	17,327
Income Taxes	<u>1,555</u>
Total Expenses	<u>\$ 262,253</u>
Net Income before Contribution to Reserves	\$ 95,105
Contribution to Reserves	<u>(77,813)</u>
Net Income	<u>\$ 17,292</u>

See Accompanying Notes to Financial Statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.  
STATEMENT OF MEMBERS' EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2006	\$ 173,612	\$ 72,612	\$ 246,224
Additions:			
Contribution to Reserves	77,813		77,813
Net Income		17,292	17,292
Balance as of December 31, 2007	<u>\$ 251,425</u>	<u>\$ 89,904</u>	<u>\$ 341,329</u>

See Accompanying Notes to Financial Statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income	\$ 17,292
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Decrease (Increase) in:	
Assessments Receivable - Net	7,522
Income Taxes Receivable	(66)
Accrued Interest	187
Prepaid Expenses	7,767
Increase (Decrease) in:	
Accounts Payable	(1,578)
Income Taxes Payable	(800)
Prepaid Assessments	13,214
Net Cash Flows from Operating Activities	<u>\$ 43,538</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Received from Assessments (Reserves)	\$ 77,813
Received from Interest-Bearing Deposits	40,563
Disbursed for Interest-Bearing Deposits	<u>(59,628)</u>
Net Cash Flows from Investing Activities	<u>\$ 58,748</u>
Net Change in Cash and Cash Equivalents	\$ 102,286
Cash and Cash Equivalents at Beginning of Year	<u>12,366</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 114,652</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash Paid for Income Taxes	<u><u>\$ 2,380</u></u>
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See Accompanying Notes to Financial Statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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 Annandale, Virginia and consists of 21 single-family homes and 294 townhomes. The 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 which revenues are recognized when earned and expenses recognized when incurred, not necessarily when received or paid.

B) Member Assessments - Association members are subject to 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. The Association utilizes the allowance method of accounting for bad debt.

C) Common Property - Common 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, the land, recreational facilities and site improvements.

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 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 require that funds be accumulated for future major repairs and replacements. Accumulated funds are generally not available for expenditures for normal operations.

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007  
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

The Association had a replacement reserve study conducted by a reserve analyst during 2003 and utilizes the cash flow method of funding for replacement reserves. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The Association is funding for future major repairs and replacements over the remaining useful lives of the components based on the study's estimates of the replacement costs and considering amounts previously accumulated in the replacement reserves. Accordingly, the funding recommendation of \$77,813 from assessments has been included in the 2007 financial statements.

Funds are being accumulated in replacement reserves based on estimates by management. 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, 2007, the Association had designated \$251,425 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 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 2007, the Association's income taxes were calculated using the corporate method.

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

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

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007  
(CONTINUED)

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Interest-Bearing Deposits</u>	<u>Total</u>
First National Bank of Arizona	Checking	\$ 59,616	\$ -	\$ 59,616
RBC Centura	Checking	26,489		26,489
First National Bank of Arizona	Money Market	28,547		28,547
First National Bank of Arizona	Certificates of Deposit (3)		80,471	80,471
SonaBank	Certificate of Deposit		35,638	35,638
CapitalOne	Certificate of Deposit		67,446	67,446
Cardinal Bank	Certificate of Deposit		42,087	42,087
	Totals	<u>\$ 114,652</u>	<u>\$ 225,642</u>	<u>\$ 340,294</u>

Balances at banks are insured by the FDIC for up to \$100,000 per financial institution. Amounts in excess of insured limits were approximately \$68,952 as of December 31, 2007.

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.

Assessments Receivable	\$ 42,092
Less: Allowance for Doubtful Assessments	<u>(17,327)</u>
Assessments Receivable - Net	<u>\$ 24,765</u>

NOTE 7 - CHANGE IN MANAGEMENT:

Subsequent to year end, the Association changed management agents. Effective January 1, 2008, Klingbeil, Powell & Alrutz, Inc. became the new managing agent.

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2007  
(UNAUDITED)

The Association had a replacement reserve study conducted a reserve analyst during 2003 to estimate the remaining useful lives and the replacement costs of the components of common property. The Association utilizes the cash flow method of funding for replacement reserves. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated replacement costs 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>2003 Estimated Remaining Useful Life (Years)</u>	<u>2003 Estimated Replacement Cost</u>
Streets and Parking	2-15	\$ 401,340
Pool Building	2-19	51,570
Pool	2-11	144,545
Tot Lot and Recreation Area	1-19	47,300