

Goldklang & Group

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JUL 30 2010

Independent Auditor's Report

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

We have audited the accompanying Balance Sheets of Lafayette Village Community Association, Inc. as of December 31, 2009 and 2008, and the related Statements of Income, Members' Equity and Cash Flows for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, 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, 2009 and 2008, 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.

Lafayette Village Community Association, Inc. raises funds for its operations and major repairs and replacement through assessment of its members. As of December 31, 2009, the Association had an assessments receivable balance of \$66,309 (before an allowance for doubtful assessments of \$40,547). It is uncertain whether the receivables are actually collectible. 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 11 is not a required part of the basic financial statements of Lafayette Village Community Association, Inc., but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Goldklang Group CPAs, P.C.

July 13, 2010

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 272,768	\$ 163,335
Interest-Bearing Deposits	232,017	223,653
Assessments Receivable - Net	25,762	9,344
Accounts Receivable - Other	-	8,400
Income Taxes Receivable	1,465	1,532
Accrued Interest	636	521
Prepaid Expenses	<u>1,085</u>	<u>1,047</u>
Total Assets	<u>\$ 533,733</u>	<u>\$ 407,832</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 18,923	\$ 3,115
Prepaid Assessments	<u>38,287</u>	<u>39,704</u>
Total Liabilities	<u>\$ 57,210</u>	<u>\$ 42,819</u>
Replacement Reserves	\$ 342,302	\$ 285,423
Unappropriated Members' Equity	<u>134,221</u>	<u>79,590</u>
Total Members' Equity	<u>\$ 476,523</u>	<u>\$ 365,013</u>
Total Liabilities and Members' Equity	<u>\$ 533,733</u>	<u>\$ 407,832</u>

See Accompanying Notes to Financial Statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>INCOME:</u>		
Assessments	\$ 399,756	\$ 364,392
Late Fees	1,556	2,060
Violations	27,668	-
Interest	8,563	8,314
Other	745	289
Total Income	<u>\$ 438,288</u>	<u>\$ 375,055</u>
 <u>EXPENSES:</u>		
Management	\$ 37,428	\$ 38,488
Legal, Audit and Tax Preparation	13,644	10,263
Reserve Study	-	3,100
Engineering	-	6,700
Insurance	4,289	4,192
Recording Secretary	3,072	2,310
Administrative	5,751	6,772
Electricity - Security Lights	4,029	3,245
Pool Operations	49,210	40,514
Grounds Maintenance	70,678	70,678
Landscaping and Tree Service	27,498	32,402
Trash Removal	62,638	66,581
Snow Removal	9,148	1,855
Common Area Maintenance	2,166	-
Erosion Control/Retaining Wall	-	16,319
Mailboxes	-	4,858
Street Light Installation	-	11,055
Bad Debt	17,871	20,771
Income Taxes	1,235	1,168
Total Expenses	<u>\$ 308,657</u>	<u>\$ 341,271</u>
Net Income before Contribution to Reserves	\$ 129,631	\$ 33,784
Contribution to Reserves	<u>(75,000)</u>	<u>(44,098)</u>
Net Income (Loss)	<u>\$ 54,631</u>	<u>\$ (10,314)</u>

See Accompanying Notes to Financial Statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2007	\$ 251,425	\$ 89,904	\$ 341,329
Addition:			
Contribution to Reserves	44,098		44,098
Deductions:			
Poolhouse	(3,700)		(3,700)
Drainage	(6,400)		(6,400)
Net Loss		(10,314)	(10,314)
Balance as of December 31, 2008	\$ 285,423	\$ 79,590	\$ 365,013
Additions:			
Contribution to Reserves	75,000		75,000
Net Income		54,631	54,631
Deductions:			
Pool	(4,096)		(4,096)
Asphalt	(14,025)		(14,025)
Balance as of December 31, 2009	<u>\$ 342,302</u>	<u>\$ 134,221</u>	<u>\$ 476,523</u>

See Accompanying Notes to Financial Statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	\$ 54,631	\$ (10,314)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Bad Debt	17,871	20,771
Decrease (Increase) in:		
Assessments Receivable	(34,289)	(5,350)
Accounts Receivable - Other	8,400	(8,400)
Income Taxes Receivable	67	(1,466)
Accrued Interest	(115)	202
Prepaid Expenses	(38)	1,364
Increase (Decrease) in:		
Accounts Payable	15,808	2,064
Income Taxes Payable	-	(91)
Prepaid Assessments	(1,417)	13,916
Net Cash Flows from Operating Activities	<u>\$ 60,918</u>	<u>\$ 12,696</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 75,000	\$ 44,098
Disbursed for Reserve Expenditures	(18,121)	(10,100)
Disbursed for Interest-Bearing Deposits	(8,364)	(7,781)
Net Cash Flows from Investing Activities	<u>\$ 48,515</u>	<u>\$ 26,217</u>
Net Change in Cash and Cash Equivalents	\$ 109,433	\$ 38,913
Cash and Cash Equivalents at Beginning of Year	<u>163,335</u>	<u>124,422</u>
Cash and Cash Equivalents at End of Year	<u>\$ 272,768</u>	<u>\$ 163,335</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 2,700</u>	<u>\$ 2,791</u>

See Accompanying Notes to Financial Statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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 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.

F) Reclassification - Certain amounts have been reclassified in the accompanying 2008 financial statements to conform to the 2009 presentation.

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(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 Miller Dodson Associates, Inc. during 2008. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The study recommends an annual contribution to reserves of \$57,197. During 2009, the Association budgeted to contribute \$75,000 to reserves.

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, 2009 and 2008, the Association had designated \$342,302 and \$285,423, 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 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 2009 and 2008, the Association's income taxes were calculated using the corporate method.

Effective January 1, 2009, the Association implemented Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 740-10, formerly FIN 48, Accounting for Uncertainty in Income Taxes. The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended December 31, 2009 and 2008, the Association did not incur any penalties and interest related to income taxes. The Association's federal and state tax returns for the

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(CONTINUED)

NOTE 4 - INCOME TAXES: (CONTINUED)

past three years remain subject to examination by the Internal Revenue Service and the Commonwealth of Virginia.

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of December 31, 2009, 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>
RBC Bank	Checking	\$ 134,315	\$ -	\$ 134,315
Wells Fargo Advisors	Bank Deposit Sweep	138,453		138,453
SonaBank	Certificate of Deposit		37,994	37,994
Capital One	Certificate of Deposit		73,961	73,961
Cardinal Bank	Certificate of Deposit		44,671	44,671
Mutual of Omaha	Certificates of Deposit (2)		75,391	75,391
	Totals	<u>\$ 272,768</u>	<u>\$ 232,017</u>	<u>\$ 504,785</u>

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.

	<u>2009</u>	<u>2008</u>
Assessments Receivable	\$ 66,309	\$ 32,638
Less: Allowance for Doubtful Assessments	<u>(40,547)</u>	<u>(23,294)</u>
Assessments Receivable - Net	<u>\$ 25,762</u>	<u>\$ 9,344</u>

NOTE 7 - MANAGEMENT SERVICES:

The Association retains Klingbeil, Powell & Alrutz, Inc. (KPA) as its managing agent. In addition, KPA and Diversified Property Services, Inc. (DPS) share common ownership interests. During 2009 and 2008, the Association paid DPS \$960 and \$955, respectively, for repair and maintenance services. No amounts were owed to DPS at year-end.

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(CONTINUED)

NOTE 8 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 13, 2010, the date the financial statements were available to be issued.

Subsequent to year-end, the Association received approximately \$23,281 from the Virginia Department of Transportation (VDOT) for land condemnation related to a roadway improvement project.

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2009
(UNAUDITED)

The Association had a replacement reserve study conducted by Miller Dodson Associates, Inc. during 2008 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 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>2008 Estimated Remaining Useful Life (Years)</u>	<u>2008 Estimated Replacement Cost</u>
Concrete Sidewalk	0-54	\$ 134,250
Concrete Curb and Gutter	3-57	262,400
Concrete Pool Deck	0-20	59,850
Wood Retaining Wall	8	5,120
Trash Receptacles	16	1,100
Carved Wood Signage	1-10	3,920
Pavement	0-17	345,524
Pool Building Exteriors	1-46	19,493
Pool Building Interiors	4-11	27,650
Swimming Pool Structures	2-27	441,803
Swimming Pool Furniture	0-9	19,500
Tot Lot and Courts	0-26	58,000