



**Principals**

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**Associate Principals**

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**Managers**

Allison A. Day, CPA  
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Independent Auditor's Report

To the Board of Directors of  
Lafayette Village Community Association, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Lafayette Village Community Association, Inc., which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of income, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility 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; this includes 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.

**Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **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, 2012 and 2011, 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.

## **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, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who 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  
October 7, 2013

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.  
BALANCE SHEETS  
DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 680,857	\$ 595,929
Interest-Bearing Deposits	127,371	121,413
Assessments Receivable - Net	12,618	2,301
Accounts Receivable - Other	924	924
Income Taxes Receivable	937	1,552
Prepaid Expenses	<u>294</u>	<u>1,085</u>
Total Assets	<u>\$ 823,001</u>	<u>\$ 723,204</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 4,013	\$ 1,286
Income Taxes Payable	5,098	2,346
Prepaid Assessments	40,082	31,710
Deferred Revenue	<u>38,983</u>	<u>25,069</u>
Total Liabilities	<u>\$ 88,176</u>	<u>\$ 60,411</u>
Replacement Reserves	\$ 495,840	\$ 466,999
Unappropriated Members' Equity	<u>238,985</u>	<u>195,794</u>
Total Members' Equity	<u>\$ 734,825</u>	<u>\$ 662,793</u>
Total Liabilities and Members' Equity	<u>\$ 823,001</u>	<u>\$ 723,204</u>

See Accompanying Notes to Financial Statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.  
STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
<u>INCOME:</u>		
Assessments	\$ 399,756	\$ 399,756
Late Fees	1,825	1,156
Interest	6,123	4,085
Bad Debt Recovery	3,601	-
Other	1,344	835
Total Income	\$ 412,649	\$ 405,832
 <u>EXPENSES:</u>		
Management	\$ 38,800	\$ 40,482
Legal, Audit and Tax Preparation	15,538	12,947
Insurance	5,451	4,568
Recording Secretary	2,750	2,360
Administrative	5,234	5,873
Electricity - Security Lights	4,465	4,779
Pool Operations	46,325	44,836
Grounds Maintenance	70,678	70,678
Landscaping and Tree Service	38,568	35,603
Trash Removal	50,439	51,306
Snow Removal	400	3,059
Common Area Maintenance	3,197	3,435
Mailboxes	-	6,066
Street Light Installation	10,125	-
Bad Debt	-	2,180
Income Taxes	5,697	282
Total Expenses	\$ 297,667	\$ 288,454
Net Income before Contribution to Reserves	\$ 114,982	\$ 117,378
Contribution to Reserves	(71,791)	(71,791)
Net Income	\$ 43,191	\$ 45,587

See Accompanying Notes to Financial Statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.  
STATEMENTS OF MEMBERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2010	\$ 398,067	\$ 150,207	\$ 548,274
Additions:			
Contribution to Reserves	71,791		71,791
Net Income		45,587	45,587
Deduction:			
Pool	<u>(2,859)</u>		<u>(2,859)</u>
Balance as of December 31, 2011	\$ 466,999	\$ 195,794	\$ 662,793
Additions:			
Contribution to Reserves	71,791		71,791
Net Income		43,191	43,191
Deductions:			
Crack Sealing	(9,600)		(9,600)
Pool	<u>(33,350)</u>		<u>(33,350)</u>
Balance as of December 31, 2012	<u>\$ 495,840</u>	<u>\$ 238,985</u>	<u>\$ 734,825</u>

See Accompanying Notes to Financial Statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 43,191	\$ 45,587
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Allowance for Doubtful Assessments	(3,601)	2,180
Decrease (Increase) in:		
Assessments Receivable	(6,716)	5,138
Income Taxes Receivable	615	895
Accrued Interest	-	515
Prepaid Expenses	791	-
Increase (Decrease) in:		
Accounts Payable	2,727	509
Income Taxes Payable	2,752	(1,994)
Prepaid Assessments	8,372	(4,817)
Deferred Revenue	<u>13,914</u>	<u>-</u>
Net Cash Flows from Operating Activities	<u>\$ 62,045</u>	<u>\$ 48,013</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 71,791	\$ 71,791
Disbursed for Reserve Expenditures	(42,950)	(2,859)
Disbursed for Interest-Bearing Deposits	<u>(5,958)</u>	<u>(4,555)</u>
Net Cash Flows from Investing Activities	<u>\$ 22,883</u>	<u>\$ 64,377</u>
Net Change in Cash and Cash Equivalents	\$ 84,928	\$ 112,390
Cash and Cash Equivalents at Beginning of Year	<u>595,929</u>	<u>483,539</u>
Cash and Cash Equivalents at End of Year	<u>\$ 680,857</u>	<u>\$ 595,929</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 600</u>	<u>\$ 900</u>

See Accompanying Notes to Financial Statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

NOTE 1 - NATURE OF OPERATIONS:

The Association is incorporated 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 detached 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 2011 financial statements to conform to the 2012 presentation.

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(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 Association is having a new study conducted in 2013.

The study recommends a contribution to reserves of \$85,754 for 2012, with annual increases each year thereafter. During 2012, the Association budgeted to contribute \$71,791 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, 2012 and 2011, the Association had designated \$495,840 and \$466,999, 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 2012 and 2011, the Association's income taxes were calculated using the corporate and exempt methods, respectively.

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended December 31, 2012 and 2011, the Association incurred no penalties or interest related to income taxes. 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.



LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(CONTINUED)

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of December 31, 2012, 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>
VA Heritage	Checking	\$ 127,241	\$ -	\$ 127,241
Wells Fargo	Bank Deposit Sweep (2)	481,710		481,710
VA Heritage	Money Market	71,906		71,906
Sona	Certificate of Deposit		41,249	41,249
Capital One	Certificate of Deposit		86,122	86,122
	Totals	<u>\$ 680,857</u>	<u>\$ 127,371</u>	<u>\$ 808,228</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>2012</u>	<u>2011</u>
Assessments Receivable	\$ 18,230	\$ 34,615
Less: Allowance for Doubtful Assessments	<u>(5,612)</u>	<u>(32,314)</u>
Assessments Receivable - Net	<u>\$ 12,618</u>	<u>\$ 2,301</u>

NOTE 7 - DEFERRED REVENUE:

During 2010, the Association received \$23,281 (\$23,269 principal and \$12 interest) from the Virginia Department of Transportation related to a land condemnation required for highway improvements and an additional \$1,800 for a temporary easement agreement for the same highway project. The Association also received \$13,914 related to the same project in 2012. The total principal received of \$38,983 has been recorded as deferred revenue as of December 31, 2012.

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(CONTINUED)

NOTE 8 - MANAGEMENT SERVICES:

The Association retains Sequoia Management Company (SMC) as its management agent. In addition, SMC provided maintenance and repair services to the Association. In 2012, \$5,945 was paid by the Association for these additional services. \$388 was due for these additional services as of December 31, 2012.

The Association retained Klingbeil, Powell & Alritz, Inc. (KPA) as its managing agent through December 31, 2011. In addition, KPA and Diversified Property Services, Inc. (DPS) share common ownership interests. During 2011, the Association paid DPS \$1,267 for repair and maintenance services. No amounts were owed to DPS at year end.

NOTE 9 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 7, 2013, the date the financial statements were available to be issued.

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2012  
(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 Association is having a new study conducted in 2013.

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