

Goldklang Group[®]

CPAs, P.C.

Principals

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Associate Principals

Jeremy W. Powell, CPA
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Managers

Allison A. Day, CPA
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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, 2011 and 2010, 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, 2011 and 2010, 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.

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 10 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.

January 15, 2013

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 595,929	\$ 483,539
Interest-Bearing Deposits	121,413	116,858
Assessments Receivable - Net	2,301	9,619
Accounts Receivable - Other	924	924
Income Taxes Receivable	1,552	2,447
Accrued Interest	-	515
Prepaid Expenses	<u>1,085</u>	<u>1,085</u>
 Total Assets	 <u>\$ 723,204</u>	 <u>\$ 614,987</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 3,632	\$ 5,117
Prepaid Assessments	31,710	36,527
Deferred Revenue	<u>25,069</u>	<u>25,069</u>
Total Liabilities	<u>\$ 60,411</u>	<u>\$ 66,713</u>
 Replacement Reserves	 \$ 466,999	 \$ 398,067
Unappropriated Members' Equity	<u>195,794</u>	<u>150,207</u>
Total Members' Equity	<u>\$ 662,793</u>	<u>\$ 548,274</u>
 Total Liabilities and Members' Equity	 <u>\$ 723,204</u>	 <u>\$ 614,987</u>

See Accompanying Notes to Financial Statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>INCOME:</u>		
Assessments	\$ 399,756	\$ 399,756
Late Fees	1,156	1,720
Violations	-	10,060
Interest	4,085	5,513
Other	835	1,362
Total Income	<u>\$ 405,832</u>	<u>\$ 418,411</u>
 <u>EXPENSES:</u>		
Management	\$ 40,482	\$ 38,925
Legal, Audit and Tax Preparation	12,947	13,100
Insurance	4,568	4,439
Recording Secretary	2,360	2,345
Administrative	5,873	7,355
Electricity - Security Lights	4,779	3,486
Pool Operations	44,836	41,859
Grounds Maintenance	70,678	70,678
Landscaping and Tree Service	35,603	38,246
Trash Removal	51,306	49,896
Snow Removal	3,059	14,624
Common Area Maintenance	3,435	1,834
Mailboxes	6,066	6,159
Street Light Installation	-	6,923
Bad Debt	2,180	26,693
Income Taxes	282	587
Total Expenses	<u>\$ 288,454</u>	<u>\$ 327,149</u>
Net Income before Contribution to Reserves	\$ 117,378	\$ 91,262
Contribution to Reserves	<u>(71,791)</u>	<u>(75,276)</u>
Net Income	<u>\$ 45,587</u>	<u>\$ 15,986</u>

See Accompanying Notes to Financial Statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2009	\$ 342,302	\$ 134,221	\$ 476,523
Additions:			
Contribution to Reserves	75,276		75,276
Net Income		15,986	15,986
Deductions:			
Pool	(12,244)		(12,244)
Concrete	(7,267)		(7,267)
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	(2,859)		(2,859)
Balance as of December 31, 2011	<u>\$ 466,999</u>	<u>\$ 195,794</u>	<u>\$ 662,793</u>

See Accompanying Notes to Financial Statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 45,587	\$ 15,986
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Allowance for Doubtful Assessments	1,723	(9,956)
Decrease (Increase) in:		
Assessments Receivable	5,595	26,099
Accounts Receivable - Other	-	(924)
Income Taxes Receivable	895	(982)
Accrued Interest	515	121
Increase (Decrease) in:		
Accounts Payable	(1,485)	(13,806)
Prepaid Assessments	(4,817)	(1,760)
Deferred Revenue	-	25,069
Net Cash Flows from Operating Activities	<u>\$ 48,013</u>	<u>\$ 39,847</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 71,791	\$ 75,276
Disbursed for Reserve Expenditures	(2,859)	(19,511)
Received from Interest-Bearing Deposits	-	120,750
Disbursed for Interest-Bearing Deposits	<u>(4,555)</u>	<u>(5,591)</u>
Net Cash Flows from Investing Activities	<u>\$ 64,377</u>	<u>\$ 170,924</u>
Net Change in Cash and Cash Equivalents	\$ 112,390	\$ 210,771
Cash and Cash Equivalents at Beginning of Year	<u>483,539</u>	<u>272,768</u>
Cash and Cash Equivalents at End of Year	<u>\$ 595,929</u>	<u>\$ 483,539</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 900</u>	<u>\$ 2,100</u>

See Accompanying Notes to Financial Statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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 2010 financial statements to conform to the 2011 presentation.

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(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 a contribution to reserves of \$81,671 for 2011, with annual increases each year thereafter. During 2011, the Association budgeted to contribute \$71,791 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, 2011 and 2010, the Association had designated \$466,999 and \$398,067, 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 2011 and 2010, the Association's income taxes were calculated using the exempt and corporate method, respectively.

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended December 31, 2011 and 2010, the Association incurred penalties and interest related to income taxes of \$0 and \$58, respectively. 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, 2011 AND 2010
(CONTINUED)

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of December 31, 2011, 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	Checking	\$ 88,287	\$ -	\$ 88,287
Wells Fargo	Bank Deposit Sweep	481,662		481,662
VA Heritage	Checking	25,980		25,980
Sona	Certificate of Deposit		40,047	40,047
Capital One	Certificate of Deposit		81,366	81,366
	Totals	<u>\$ 595,929</u>	<u>\$ 121,413</u>	<u>\$ 717,342</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>2011</u>	<u>2010</u>
Assessments Receivable	\$ 34,615	\$ 40,210
Less: Allowance for Doubtful Assessments	<u>(32,314)</u>	<u>(30,591)</u>
Assessments Receivable - Net	<u>\$ 2,301</u>	<u>\$ 9,619</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. Also, the Association received an additional \$1,800 for a temporary easement agreement for the same highway project. The total principal received of \$25,069 has been recorded as deferred revenue as of December 31, 2011.

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(CONTINUED)

NOTE 8 - MANAGEMENT SERVICES:

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 and 2010, the Association paid DPS \$1,267 and \$150, respectively, for repair and maintenance services. No amounts were owed to DPS at year end.

At year-end, the Association changed management agents. The new management is Sequoia Management Company, Inc.

NOTE 9 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through January 15, 2013, the date the financial statements were available to be issued.

Subsequent to year end, the Association had replacement reserve expenditures of approximately \$33,000 for pool repairs and \$10,000 for basketball and volleyball court repairs.

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2011
(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 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>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