

LAFAYETTE VILLAGE COMMUNITY  
ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2005

AHLBERG & COMPANY, P.C.

Certified Public Accountants

6733 Curran Street, Suite 210

McLean, VA 22101

703/761-4000 • FAX 703/761-4006

F. James Ahlberg, CPA

Mary E. Johnson, CPA

email: cpa@ahlberg-cpa.com

website: www.ahlberg-cpa.com

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Lafayette Village Community Association

We have audited the accompanying statement of assets, liabilities and members' equity - modified cash basis of Lafayette Village Community Association as of December 31, 2005, and the related statements of revenue and expenses - modified cash basis and changes in members' equity - modified cash basis for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 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 management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Prior to 2005, the Association maintained its books and records on the accrual basis of accounting. In 2005, the Association began maintaining its books and records on a modified cash basis of accounting. Accordingly, as described in the significant accounting policies, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and members' equity - modified cash basis of Lafayette Village Community Association as of December 31, 2005, and the revenue and expenses - modified cash basis and change in members' equity - modified cash basis for the year then ended, on the basis of accounting described in the significant accounting policies.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of expenses is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The supplementary information on future major repairs and replacements is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of reading and summarizing the repair and replacement study. However, we did not audit the information and express no opinion on it.

AHLBERG & COMPANY, P.C.  
Certified Public Accountants

March 29, 2007

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION  
STATEMENT OF ASSETS, LIABILITIES AND  
MEMBERS' EQUITY - MODIFIED CASH BASIS  
DECEMBER 31, 2005

ASSETS

Cash - operating	\$ 21,287
Cash - money markets	54,088
Total cash	<u>75,375</u>
Investments (note 1)	<u>153,808</u>
 TOTAL ASSETS	 \$ <u><u>229,183</u></u>

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES:

Income taxes payable	681
Total liabilities	<u>681</u>

MEMBERS' EQUITY:

Repair and replacement funds	149,911
Members' equity	78,591
Total members' equity	<u>228,502</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 \$ <u><u>229,183</u></u>

See accountant's report and notes to financial statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION  
STATEMENT OF REVENUE AND EXPENSES - MODIFIED CASH BASIS  
FOR THE YEAR ENDED  
DECEMBER 31, 2005

REVENUE:

Gross assessments	\$ 261,069
Less repair and replacement funds assessments	(25,204)
Operating assessments	<u>235,865</u>
Interest	5,440
Other revenue	4,453
Total operating revenue	<u>245,758</u>

EXPENSES:

Administrative	54,685
Operating	157,332
Utilities	7,760
Total expenses	<u>219,777</u>

EXCESS OF REVENUE OVER EXPENSES	\$ <u>25,981</u>
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See accountant's report and notes to financial statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION  
STATEMENT OF CHANGES IN MEMBERS'  
EQUITY - MODIFIED CASH BASIS  
FOR THE YEAR ENDED  
DECEMBER 31, 2005

	Repair and Replacement Funds	Members' Equity
Balance at December 31, 2004 accrual basis	\$ 151,887	\$ 35,858
Addition:		
Adjustments necessary to convert to modified cash basis		16,752
Adjusted balance at December 31, 2004 - modified cash basis	151,887	52,610
Additions:		
Repair and replacement fund assessments	25,204	
Excess of revenue over expenses		25,981
Deduction:		
Repair and replacement fund expenditures	(27,180)	
Balance at December 31, 2005, modified cash basis	\$ 149,911	\$ 78,591

See accountant's report and notes to financial statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

ORGANIZATION:

Lafayette Village Community Association is a non-profit Virginia corporation organized to maintain the common areas of Lafayette Village consisting of approximately 30 acres of common ground, including 12 private streets, a pool, pool house, tot lot, basketball court and all-purpose court. There are 315 units in the Association located in Fairfax County, Virginia.

SIGNIFICANT ACCOUNTING POLICIES:

Method of Presentation - The financial statements are presented using the modified cash basis of accounting whereby revenue is recognized when earned instead of received and expenses are recognized when paid instead of when incurred, except for income taxes payable.

Investments - Investments consist of certificates of deposit in which cost plus accrued interest approximates fair value.

Repair and Replacement Funds - 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.

A study was conducted by an engineering firm in 2003 at the request of the Board of Directors to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited supplementary information on future major repairs and replacements is based on that study.

The Board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the repair and replacement funds.

Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the repair and replacement funds may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

(Continued)

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Income Taxes - In 2005, the Association filed its corporate income tax returns as a membership organization recognizing the applicability of IRS Code Section 277, which segregates membership and non-membership activities, without the right of offset. The Association may apply the excess of membership revenue over related expenses, if any, to the subsequent year. When applicable, this is shown as a liability. Accordingly, it is taxed on only its net non-membership revenue (primarily interest earned) at graduated corporation rates.

NOTE 1 - INVESTMENTS:

Investments at December 31, 2005, are comprised of:

	<u>Account</u> <u>Type</u>	<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Balance</u>
First Service Mercantile	CD	02/10/2006	4.00%	\$ 32,234
Potomac	CD	07/01/2007	4.18%	26,471
First Service	CD	05/29/2008	3.84%	33,016
Capital One	CD	11/21/2008	4.14%	<u>62,087</u>
Total investments				<u>\$ 153,808</u>

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION  
SCHEDULE OF EXPENSES  
FOR THE YEAR ENDED  
DECEMBER 31, 2005

Administrative:

Management contract	\$ 31,772
Audit	2,700
Legal	4,311
Taxes	1,461
Insurance	2,259
Newsletter	448
Management collections	100
Recording secretary	2,115
Miscellaneous	10,633
Community activities	316
Conversion	(1,800)
Bad debt	1
Bank charges	369
Total administrative	<u>54,685</u>

Operating:

Grounds maintenance	67,182
Common area repair	9,893
Snow removal	3,570
Trash removal	46,828
Pool	3,017
Pool furniture	109
Pool management contract	25,000
Pool and recreation repairs	1,733
Total operating	<u>157,332</u>

Utilities:

Electricity - common area	(224)
Electricity - pool	3,189
Electricity - security lights	2,239
Water - pool	2,003
Gas - pool	172
Telephone - pool	381
Total utilities	<u>7,760</u>

TOTAL EXPENSES	<u>\$ 219,777</u>
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LAFAYETTE VILLAGE COMMUNITY ASSOCIATION  
SUPPLEMENTARY INFORMATION ON FUTURE  
MAJOR REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2005  
 (Unaudited)

The following table is based on a repair and replacement study conducted by an engineering firm in 2003 and presents significant information about the components of the common property.

<u>Components</u>	2003 Estimated Useful Lives(yrs)	2003 Estimated Future Replacement Costs	Repair and Replacement Funds Balance at December 31, 2005
Asphalt	3-9	\$ 274,184	\$
Pool	2-11	144,545	
Pool building	4-19	51,570	
Tot lot	1-19	47,300	
Retaining walls and fences	15	40,000	
Site lights	9	33,000	
Concrete	6	27,902	
Other site items	2-15	<u>26,254</u>	<u>                    </u>
Total		<u>\$ 644,755</u>	<u>\$ 149,911</u>