

**Principals**

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**Associate Principals**

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**Managers**

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### Independent Auditor's Report

To the Board of Directors of  
Truro Homes Association

**Report on the Financial Statements**

We have audited the accompanying financial statements of Truro Homes Association, which comprise the statement of assets and equity – cash basis as of December 31, 2013, and the related statements of revenue and expenses – cash basis, and changes in members' equity – cash basis for the year 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 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 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 qualified audit opinion.

### **Basis for Qualified Opinion**

Due to the lack of documentation, we were unable to verify the swim team income, dive team income and snack bar income for the year ended December 31, 2013.

### **Qualified Opinion**

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Truro Homes Association as of December 31, 2013, and its revenue and expenses and changes in members' equity for the year then ended, in accordance with the cash basis of accounting as described in Note 2.

### **Basis of Accounting**

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. These financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

### **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 9 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  
June 11, 2014

TRURO HOMES ASSOCIATION  
STATEMENT OF ASSETS AND EQUITY - CASH BASIS  
DECEMBER 31, 2013

2013

ASSETS

Cash and Cash Equivalents	\$ <u>324,877</u>
Total Assets	\$ <u><u>324,877</u></u>

MEMBERS' EQUITY

Replacement Reserves	\$ 314,753
Unappropriated Members' Equity	<u>10,124</u>
Total Members' Equity	\$ <u><u>324,877</u></u>

TRURO HOMES ASSOCIATION  
STATEMENT OF REVENUE AND EXPENSES - CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>THA</u>	<u>TCC</u>	<u>Total</u>
<u>INCOME:</u>			
Assessments	\$ 86,710	\$ 176,560	\$ 263,270
Interest	1,025		1,025
TCC Lease		13,140	13,140
Swim Team		18,485	18,485
Dive Team		10,921	10,921
Snack Bar		8,409	8,409
Other	3,465	3,581	7,046
Total Income	<u>\$ 91,200</u>	<u>\$ 231,096</u>	<u>\$ 322,296</u>
<u>EXPENSES:</u>			
Record Keeper	\$ 3,170	\$ 3,170	\$ 6,340
Treasurer	1,740	1,740	3,480
Legal and Audit	5,876		5,876
Insurance	15,198	6,513	21,711
Internet Site	310		310
Office Supplies	2,731		2,731
Publicity and Newsletter	1,234		1,234
Membership Fees	510		510
Gas		1,086	1,086
Telephone		1,422	1,422
Electricity		4,704	4,704
Water and Sewer		2,019	2,019
Parkland Maintenance	17,070		17,070
Landscaping		18,507	18,507
Facility Maintenance		7,983	7,983
Swim Team		25,155	25,155
Dive Team		14,844	14,844
Snack Bar/ Snack Bar Payroll		10,212	10,212
Gatekeeper		720	720
Repairs and Maintenance		20,357	20,357
Social Activities	886		886
Chemicals and Supplies		9,928	9,928
Pool Management		65,248	65,248
Pool Furniture		8,239	8,239
Security	464		464
Taxes, Permits and Licenses	1,678		1,678
Total Expenses	<u>\$ 50,867</u>	<u>\$ 201,847</u>	<u>\$ 252,714</u>
Net Income before Contribution to Reserves and Interest Contribution to Reserves	\$ 40,333	\$ 29,249	\$ 69,582
Contribution to Reserves	(31,125)	(34,350)	(65,475)
Interest Contribution to Reserves	(1,025)		(1,025)
Net Income (Loss)	<u>\$ 8,183</u>	<u>\$ (5,101)</u>	<u>\$ 3,082</u>

See Accompanying Notes to Financial Statements

TRURO HOMES ASSOCIATION  
STATEMENT OF CHANGES IN MEMBERS' EQUITY - CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2012 - Restated	\$ 270,921	\$ 7,042	\$ 277,963
Additions:			
Contribution to Reserves	65,475		65,475
Interest Contribution to Reserves	1,025		1,025
Net Income		3,082	3,082
Deduction:			
Pool	<u>(22,668)</u>		<u>(22,668)</u>
Balance as of December 31, 2013	<u>\$ 314,753</u>	<u>\$ 10,124</u>	<u>\$ 324,877</u>

TRURO HOMES ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

NOTE 1 - NATURE OF OPERATIONS:

The Association is organized under the laws of the Commonwealth of Virginia for the purpose of maintaining and preserving the common property of the Association. It is located in Annandale, Virginia and consists of 377 homes. The Association's Board of Directors administers the Association operations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

A) Method of Accounting - The financial statements are presented on the cash basis of accounting in which revenues are recognized when received and expenses when paid, rather than when earned or incurred. The Association's statement of revenue and expenses is divided into two columns to separately reflect the activity for the general operations of the Association and the recreational facilities. Those categories are as follows:

- THA (Truro Homes Association) - This fund is used to account for financial resources available for the general operations of the Association.
- TCC (Truro Community Center) - This fund is used to account for financial resources available for the general operation of the recreational facilities of Truro Community Center.

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.

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 and recreational facilities.

D) Cash Equivalents - 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 do not require that funds be accumulated for future major repairs and replacements; however, the Association has elected to set aside funds for replacement reserves. Accumulated funds are generally not available for expenditures for normal operations.

The Association had a replacement reserve study conducted by Miller Dodson Associates, Inc. in 2009. The study was updated in 2013. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this updated study.

TRURO HOMES ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013  
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

The 2009 study recommends a contribution to reserves of \$58,562 for 2013. For 2013, the Association budgeted to contribute \$65,475 to reserves. In addition, the Association contributed interest income of \$1,025 to reserves.

Funds are being accumulated in replacement reserves based on the replacement reserve study. 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 Association may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As of December 31, 2013, the Association had designated \$314,753 for replacement reserves. These designated reserves were funded by cash and cash equivalents.

NOTE 4 - INCOME TAXES:

The Association is a non-stock, nonprofit association that holds tax-exempt status under Section 501(c)(4) of the Internal Revenue Code. No provision for income taxes is required, since the Association has no unrelated business income.

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the year ended December 31, 2013, the Association did not incur any penalties and interest related to income taxes. The Association's federal tax returns for the past three years remain subject to examination by the Internal Revenue Service.

NOTE 5 - CASH AND CASH EQUIVALENTS:

As of December 31, 2013, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>
PNC	Checking	\$ 8,850
BB&T	Checking	2,882
PNC	Checking	10,518
PNC	Checking	808
PNC	Money Market	69,913
CapitalOne360	Savings	<u>231,906</u>
	Total	<u>\$ 324,877</u>

TRURO HOMES ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013  
(CONTINUED)

NOTE 6 - RELATED PARTY TRANSACTIONS:

During 2013, the Association paid two members of the Association for their services as treasurer and record keeper. The treasurer also performed other miscellaneous services for the Association. For 2013, the Association paid \$3,480 and \$6,340, for treasurer and bookkeeper, respectively. No amounts were owed for these services as of December 31, 2013.

NOTE 7 - PRIOR PERIOD ADJUSTMENT:

For 2013, the Association incorporated the Swim Team, Dive Team, and Snack Bar activities into its financial statements, which it had not done in prior years. Accordingly, the Swim Team, Dive Team, and Snack Bar beginning cash balances were combined with unappropriated members' equity. This had the following effect on the financial statements.

	As Originally <u>Stated</u>	<u>Adjustment</u>	As <u>Restated</u>
Cash and Cash Equivalents	\$263,471	\$14,492	\$277,963
Unappropriated Members' Equity (Deficit)	(7,450)	14,492	7,042

NOTE 8 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through June 11, 2014, the date the financial statements were available to be issued.

Subsequent to year end, the Association contracted for pool deck concrete replacement in the amount of approximately \$30,000. This project will be funded through replacement reserves.



TRURO HOMES ASSOCIATION  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2013  
(UNAUDITED)

The Association had a replacement reserve study conducted by Miller Dodson Associates, Inc. during 2013 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. The estimated replacement costs presented below 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>2013 Estimated Remaining Useful Life (Years)</u>	<u>2013 Estimated Replacement Cost</u>
Site Improvements	0-30	\$ 587,903
Club House Exterior	1-26	148,099
Club House Extension Exterior	6-42	30,170
Club House Interior	0-27	106,221
Building Systems	9-21	18,500
Swimming Pool	0-31	642,218
Miscellaneous	10	4,500