

**GOLDKLANG, CAVANAUGH & ASSOCIATES, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

Board of Directors  
Truro Homes Association  
Annandale, Virginia

We have audited the accompanying statements of Assets and Equity arising from cash transactions of Truro Homes Association as of December 31, 2003 and 2002, and the related statements of Revenue and Expenses, and Changes in Members' Equity 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 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.

As described in Note 2, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Assets and Equity arising from cash transactions of Truro Homes Association as of December 31, 2003 and 2002, and its Revenue and Expenses, and Changes in Members' Equity during the years the ended, on the basis of accounting described in Note 2.

The supplementary information on future major repairs and replacements on page 8 is not a required part of the basic financial statements of Truro Homes Association, but is supplementary information required by the American Institute of Certified Public Accountants. 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, Cavanaugh & Associates, P.C.*

January 27, 2004

TRURO HOMES ASSOCIATION  
STATEMENTS OF ASSETS AND EQUITY  
DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 48,177	\$ 24,924
Investments	<u>338,690</u>	<u>372,290</u>
Total Assets	<u>\$ 386,867</u>	<u>\$ 397,214</u>

MEMBERS' EQUITY

Replacement Reserves	\$ 375,635	\$ 388,949
Unappropriated Members' Equity	<u>11,232</u>	<u>8,265</u>
Total Members' Equity	<u>\$ 386,867</u>	<u>\$ 397,214</u>

TRURO HOMES ASSOCIATION  
STATEMENTS OF REVENUE AND EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003			2002		
	THA	TCC	Total	THA	TCC	Total
<b>INCOME:</b>						
Assessments	\$ 62,380	\$ 126,490	\$ 188,870	\$ 58,895	\$ 123,635	\$ 182,530
Interest	4,900		4,900	8,062		8,062
TCC Lease		10,585	10,585		9,000	9,000
Other	1,905	4,568	6,473	1,420	1,279	2,699
Total Income	\$ 69,185	\$ 141,643	\$ 210,828	\$ 68,377	\$ 133,914	\$ 202,291
<b>EXPENSES:</b>						
Record Keeper	\$ 3,000	\$ 3,000	\$ 6,000	\$ 3,000	\$ 3,000	\$ 6,000
Treasurer	1,500	1,500	3,000	1,500		1,500
Legal and Audit	6,279		6,279	1,842		1,842
Insurance	18,243		18,243	15,804		15,804
Internet Site	368		368	1,621		1,621
Office Supplies	1,777	162	1,939	4,106	20	4,126
Publicity and Newsletter	3,656		3,656	3,030		3,030
Contributions			-	200		200
Membership Fees	360		360	375		375
Gas		1,609	1,609		1,129	1,129
Telephone	1,213	690	1,903	739	1,230	1,969
Electricity		5,383	5,383		3,481	3,481
Water and Sewer		2,318	2,318		1,690	1,690
Storm Damage	6,778	2,229	9,007			
Parkland Maintenance	11,262		11,262	14,440		14,440
Landscaping		9,140	9,140		10,644	10,644
Landscape Improvements			-	1,321	3,243	4,564
Facility Maintenance		3,350	3,350		3,350	3,350
Swim and Dive Team		9,785	9,785		9,000	9,000
Gatekeeper		600	600		720	720
Tennis		270	270		500	500
Repairs and Maintenance		12,040	12,040		17,162	17,162
Social Activities	674		674	1,800		1,800
Chemicals and Supplies		7,171	7,171		8,649	8,649
Professional Studies			-	2,635		2,635
Pool Management		45,299	45,299		43,785	43,785
Security	365		365		240	240
Taxes, Permits and Licenses	940		940	960		960
Total Expenses	\$ 56,415	\$ 104,546	\$ 160,961	\$ 53,373	\$ 107,843	\$ 161,216
Net Income before Contribution to Reserves and Interest Contribution to Reserves	\$ 12,770	\$ 37,097	\$ 49,867	\$ 15,004	\$ 26,071	\$ 41,075
Contribution to Reserves	(14,700)	(27,300)	(42,000)	(15,110)	(25,660)	(40,770)
Interest Contribution to Reserves	(4,900)		(4,900)	(8,062)		(8,062)
Net Income (Loss)	\$ (6,830)	\$ 9,797	\$ 2,967	\$ (8,168)	\$ 411	\$ (7,757)

TRURO HOMES ASSOCIATION  
STATEMENTS OF CHANGES IN MEMBERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Land and Buildings Fund	Replacement Reserves	Unappropriated Members' Equity	Total Members' Equity
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balance as of December 31, 2001	\$ 268,267	\$ 395,111	\$ 16,022	\$ 679,400
Additions:				
Contribution to Reserves		40,770		40,770
Interest Contribution to Reserves		8,062		8,062
Deductions:				
Write-off Land and Buildings	(268,267)			(268,267)
Reserve Expenditures		(54,994)		(54,994)
Net Loss			(7,757)	(7,757)
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balance as of December 31, 2002	-	388,949	8,265	397,214
Additions:				
Contribution to Reserves		42,000		42,000
Interest Contribution to Reserves		4,900		4,900
Net Income			2,967	2,967
Deduction:				
Reserve Expenditures		(60,214)		(60,214)
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balance as of December 31, 2003	<u>\$ -</u>	<u>\$ 375,635</u>	<u>\$ 11,232</u>	<u>\$ 386,867</u>

See Accompanying Notes to Financial Statements

TRURO HOMES ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002

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 income statement 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 a one time assessment to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements.

C) Common Property - Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. Common property includes, but is not limited to, the land and recreational facilities.

D) Cash Equivalents - For purposes of the statement of cash flows, the Association considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents.

E) Reclassification - Certain amounts have been reclassified in the accompanying 2002 financial statements to conform to the 2003 presentation.

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.

TRURO HOMES ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

The Association had a replacement reserve schedule prepared by the Board of Directors during 2003 and utilizes the component method of funding for replacement reserves. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this schedule.

The Association is funding for future major repairs and replacements over the remaining useful lives of the components based on the schedule's estimates of the replacement costs and considering amounts previously accumulated in the replacement reserves. Accordingly, the funding recommendation of \$42,000 (approximately \$9 per unit per month) from assessments has been included in the 2003 financial statements. Additionally, during 2003, the Association also contributed \$4,900 of interest to replacement reserves.

Funds are being accumulated in replacement reserves based on the replacement reserve schedule. 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, 2003 and 2002, the Association had designated \$375,635 and \$388,949, respectively, for replacement reserves. These designated reserves were funded by cash and investments.

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.

NOTE 5 - CASH AND INVESTMENTS:

As of December 31, 2003, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Riggs	Checking	\$ 18,752	\$ -	\$ 18,752
United	Money Market	29,425		29,425
U.S. Government	Treasury Bills (5)		<u>338,690</u>	<u>338,690</u>
	Totals	<u>\$ 48,177</u>	<u>\$ 338,690</u>	<u>\$ 386,867</u>

TRURO HOMES ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(CONTINUED)

NOTE 5 - CASH AND INVESTMENTS: (CONTINUED)

It is the intent of the Association to hold all investments in debt securities to maturity. As of December 31, 2003, the market value of the U.S. Government treasury bills approximated cost.

NOTE 6 - RELATED PARTY TRANSACTION:

During 2003 and 2002, the Association paid two members of the Association for their services as treasurer and record keeper. For 2003 and 2002 the Association paid \$3,000 and \$1,500, respectively, for Treasury service. In addition, for 2003 and 2002 the Association paid \$6,000 and \$6,000, respectively, for record keeping.

NOTE 7 - LAND AND BUILDINGS:

During 2002, property that did not meet the guidelines established in the AICPA Audit and Accounting Guide for Common Interest Realty Associations was written off.

NOTE 8 - SUBSEQUENT EVENT:

Subsequent to year-end, the Association began plans on a playground replacement project, which will cost approximately \$30,000. The playground replacement will take place during 2004 and will be expensed from the replacement reserve fund.

TRURO HOMES ASSOCIATION  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2003  
(UNAUDITED)

The Association had a replacement reserve schedule prepared by the Board of Directors in 2003 to estimate the remaining useful lives and the replacement costs of the components of common property. The Association utilizes the component method of funding for replacement reserves. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the schedule. Estimated replacement costs do not take into account the effects of inflation between the date of the schedule and the date the components will require repair or replacement.

The following has been extracted from the Association's replacement reserve schedule and presents significant information about the components of common property.

<u>Component</u>	<u>2003 Estimated Remaining Useful Life (Years)</u>	<u>2003 Estimated Replacement Cost</u>
Streets	1-30	\$ 96,094
Fencing	0-32	76,079
Amenities	0-30	308,915
Buildings - Interior	0-22	131,547
Grounds	0-29	38,910
Playgrounds	0-15	30,360



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January 27, 2004

Board of Directors  
Truro Homes Association  
Annandale, Virginia

Dear Board Members:

In connection with our examination of the financial statements of Truro Homes Association for the year ended December 31, 2003, we make the following comments and recommendations.

Minutes of Board Meetings

Minutes of board meetings are important records of the decisions concerning areas of the Association's business and financial affairs. We commend the Association on the excellence of its minutes for 2003 and recommend the Association continue to include the following information within the minutes:

- 1) Approval of final operating budget (gross assessments and reserve contribution)
- 2) Approval of monthly contractual services (vendors and amounts)
- 3) Approval of major nonreserve expenditures (vendors and amounts)
- 4) Approval of expenditures out of reserves (vendors and amounts)
- 5) Transfer of funds from one bank to another (dates and amounts)
- 6) Write-off of any assessments receivable (units and amounts)

Accumulate Excess Operating Funds

As of December 31, 2003, the Association had a surplus of \$11,232 in unappropriated members' equity (excess operating funds). This represents approximately 6% of annual assessments. We recommend the Association accumulate excess operating funds to a level of 10% to 20% of annual assessments through the budgetary process. This procedure will ensure that potential operating deficits will not consume funds designated for replacement reserves.

We shall be pleased to discuss our comments and recommendations in greater detail. We are always available to give advice on any financial matter. Please do not hesitate to contact us if there are any questions regarding proper accounting procedures or the implementation of our suggested changes.

Very truly yours,

*Goldklang, Cavanaugh + Associates, P.C.*

GOLDKLANG, CAVANAUGH & ASSOCIATES, P.C.

(This letter is intended solely for the use of management and the Board of Directors.)