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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, 2004 and 2003, 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, 2004 and 2003, 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.

February 14, 2005

TRURO HOMES ASSOCIATION
STATEMENTS OF ASSETS AND EQUITY
DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 52,737	\$ 48,177
Investments	<u>321,891</u>	<u>338,690</u>
Total Assets	<u>\$ 374,628</u>	<u>\$ 386,867</u>
<u>MEMBERS' EQUITY</u>		
Replacement Reserves	\$ 377,762	\$ 375,635
Unappropriated Members' Equity (Deficit)	<u>(3,134)</u>	<u>11,232</u>
Total Members' Equity	<u>\$ 374,628</u>	<u>\$ 386,867</u>

See Accompanying Notes to Financial Statements

TRURO HOMES ASSOCIATION
STATEMENTS OF REVENUE AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004			2003		
	THA	TCC	Total	THA	TCC	Total
INCOME:						
Assessments	\$ 63,750	\$ 125,845	\$ 189,595	\$ 62,380	\$ 126,490	\$ 188,870
Interest	3,597		3,597	4,900		4,900
TCC Lease		12,777	12,777		10,585	10,585
Other	1,493	2,695	4,188	1,905	4,568	6,473
Total Income	<u>\$ 68,840</u>	<u>141,317</u>	<u>\$ 210,157</u>	<u>\$ 69,185</u>	<u>\$ 141,643</u>	<u>\$ 210,828</u>
EXPENSES:						
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	3,000
Legal and Audit	4,423		4,423	6,279		6,279
Insurance	21,014		21,014	18,243		18,243
Consulting	3,750		3,750	-		-
Internet Site	439		439	368		368
Office Supplies	3,313		3,313	1,777	162	1,939
Publicity and Newsletter	3,575		3,575	3,656		3,656
Membership Fees	320		320	360		360
Gas		1,692	1,692		1,609	1,609
Telephone	549	1,270	1,819	1,213	690	1,903
Electricity		2,733	2,733		5,383	5,383
Water and Sewer		2,244	2,244		2,318	2,318
Storm Damage	8,105		8,105	6,778	2,229	9,007
Parkland Maintenance	12,110		12,110	11,262		11,262
Landscaping		13,878	13,878		9,140	9,140
Facility Maintenance		3,800	3,800		3,350	3,350
Swim and Dive Team		9,781	9,781		9,785	9,785
Gatekeeper		720	720		600	600
Tennis			-		270	270
Repairs and Maintenance		17,292	17,292		12,040	12,040
Social Activities	1,424		1,424	674		674
Chemicals and Supplies		8,522	8,522		7,171	7,171
Pool Management		46,450	46,450		45,299	45,299
Pool Furniture		1,684	1,684			-
Security			-	365		365
Taxes, Permits and Licenses	838		838	940		940
Total Expenses	<u>\$ 64,360</u>	<u>\$ 114,566</u>	<u>\$ 178,926</u>	<u>\$ 56,415</u>	<u>\$ 104,546</u>	<u>\$ 160,961</u>
Net Income before Contribution to Reserves and Interest Contribution to Reserves	\$ 4,480	\$ 26,751	\$ 31,231	\$ 12,770	\$ 37,097	\$ 49,867
Contribution to Reserves	(14,700)	(27,300)	(42,000)	(14,700)	(27,300)	(42,000)
Interest Contribution to Reserves	(3,597)		(3,597)	(4,900)		(4,900)
Net Income (Loss)	<u>\$ (13,817)</u>	<u>\$ (549)</u>	<u>\$ (14,366)</u>	<u>\$ (6,830)</u>	<u>\$ 9,797</u>	<u>\$ 2,967</u>

TRURO HOMES ASSOCIATION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity (Deficit)</u>	<u>Total Members' Equity</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	<u>(60,214)</u>		<u>(60,214)</u>
Balance as of December 31, 2003	\$ 375,635	\$ 11,232	\$ 386,867
Additions:			
Contribution to Reserves	42,000		42,000
Interest Contribution to Reserves	3,597		3,597
Deductions:			
Reserve Expenditures	(43,470)		(43,470)
Net Loss		<u>(14,366)</u>	<u>(14,366)</u>
Balance as of December 31, 2004	<u>\$ 377,762</u>	<u>\$ (3,134)</u>	<u>\$ 374,628</u>

See Accompanying Notes to Financial Statements

TRURO HOMES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

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 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 an engineer during 2004 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 study.

TRURO HOMES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

The Association is funding for future major repairs and replacements over the remaining useful lives of the components based on the study'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 home per month) from assessments has been included in the 2004 financial statements. Additionally, during 2004, the Association also contributed \$3,597 of interest to replacement 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, 2004 and 2003, the Association had designated \$377,762 and \$375,635, respectively, for replacement reserves. These designated reserves were not funded due to a deficit in unappropriated members' equity.

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, 2004, 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	\$ 6,941	\$ -	\$ 6,941
United	Money Market	45,796		45,796
U.S. Government	Treasury Bills (5)		<u>321,891</u>	<u>321,891</u>
	Totals	<u>\$ 52,737</u>	<u>\$ 321,891</u>	<u>\$ 374,628</u>

It is the intent of the Association to hold all investments in debt securities to maturity. As of December 31, 2004, the market value of the U.S. Government treasury bills approximated cost.

TRURO HOMES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(CONTINUED)

NOTE 6 - RELATED PARTY TRANSACTION:

During 2004 and 2003, the Association paid two members of the Association for their services as treasurer and record keeper. For 2004 and 2003 the Association paid \$3,000 per year for Treasury service. In addition, for 2004 and 2003 the Association paid \$6,000 per year for record keeping.

NOTE 7 - CLUBHOUSE RENOVATION:

During 2004, the Association approved expending up to \$200,000 for clubhouse renovation. The drawings for the renovation have been completed. The Association plans to sign a contract in May 2005 with construction to be started in September 2005. The project will be funded through replacement reserves.

TRURO HOMES ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2004
(UNAUDITED)

The Association had a replacement reserve study conducted by an engineer in 2004 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 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 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>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Replacement Cost</u>
Asphalt	1-19	\$ 195,075
Site Features	6-25	29,168
Bridges	9-15	35,756
Tot Lots	15-20	23,895
Recreation Features	3-28	109,449
Pool	2-28	310,725
Clubhouse Exterior	1-21	102,473
Clubhouse Interior	4-21	80,402