

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

**VIRGINIA AND
ADMINISTRATIVE OFFICES**
1801 ROBERT FULTON DRIVE
SUITE 200
RESTON, VA 20191
PHONE: (703) 391-9003
FAX: (703) 391-9004

MEMBERS OF
AMERICAN INSTITUTE OF CPAS

MARYLAND OFFICE
1700 ROCKVILLE PIKE
SUITE 400
ROCKVILLE, MD 20852
PHONE: (301) 998-6581

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, 2006 and 2005, 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 are 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, 2006 and 2005, 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.

May 7, 2007

TRURO HOMES ASSOCIATION
STATEMENTS OF ASSETS AND EQUITY
DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 64,052	\$ 35,199
Investments	<u>170,665</u>	<u>394,791</u>
Total Assets	<u>\$ 234,717</u>	<u>\$ 429,990</u>
<u>MEMBERS' EQUITY</u>		
Replacement Reserves	\$ 238,594	\$ 431,258
Unappropriated Members' Equity (Deficit)	<u>(3,877)</u>	<u>(1,268)</u>
Total Members' Equity	<u>\$ 234,717</u>	<u>\$ 429,990</u>

See Accompanying Notes to Financial Statements

TRURO HOMES ASSOCIATION
STATEMENTS OF REVENUE AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006			2005		
	THA	TCC	Total	THA	TCC	Total
INCOME:						
Assessments	\$ 75,400	\$ 138,345	\$ 213,745	\$ 73,685	\$ 136,049	\$ 209,734
Interest	14,363		14,363	9,586		9,586
TCC Lease		5,940	5,940		6,274	6,274
Other	3,923	5,120	9,043	2,289	5,712	8,001
Total Income	\$ 93,686	149,405	\$ 243,091	\$ 85,560	148,035	\$ 233,595
EXPENSES:						
Record Keeper	\$ 3,225	\$ 3,225	\$ 6,450	\$ 3,000	\$ 3,000	\$ 6,000
Treasurer	1,500	1,500	3,000	1,500	1,500	3,000
Legal and Audit	7,680		7,680	2,748		2,748
Insurance	16,742	6,192	22,934	16,801	6,300	23,101
ACC Compliance	850		850	7,235		7,235
Consulting	-		-	1,971		1,971
Internet Site	475		475	475		475
Office Supplies	2,665		2,665	2,977		2,977
Publicity and Newsletter	3,522		3,522	3,451		3,451
Membership Fees	425		425	440		440
Gas		2,021	2,021		1,935	1,935
Telephone	525	1,210	1,735	567	1,240	1,807
Electricity		3,168	3,168		3,069	3,069
Water and Sewer		2,709	2,709		1,817	1,817
Parkland Maintenance	25,086		25,086	12,638		12,638
Landscaping		14,671	14,671		12,661	12,661
Facility Maintenance		-	-		2,921	2,921
Swim and Dive Team		9,796	9,796		9,983	9,983
Gatekeeper		360	360		720	720
Repairs and Maintenance		8,706	8,706		14,412	14,412
Social Activities	1,302		1,302	600		600
Chemicals and Supplies		9,686	9,686		9,544	9,544
Pool Management		48,929	48,929		47,560	47,560
Pool Furniture		4,386	4,386		-	-
Security	662		662	1,571		1,571
Taxes, Permits and Licenses	924		924	857		857
Total Expenses	\$ 65,583	\$ 116,559	\$ 182,142	\$ 56,831	\$ 116,662	\$ 173,493
Net Income before Contribution to Reserves and Interest Contribution to Reserves	\$ 28,103	\$ 32,846	\$ 60,949	\$ 28,729	\$ 31,373	\$ 60,102
Contribution to Reserves	(17,220)	(31,975)	(49,195)	(16,800)	(31,850)	(48,650)
Interest Contribution to Reserves	(14,363)		(14,363)	(9,586)		(9,586)
Net Income (Loss)	\$ (3,480)	\$ 871	\$ (2,609)	\$ 2,343	\$ (477)	\$ 1,866

TRURO HOMES ASSOCIATION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity (Deficit)</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2004	\$ 377,762	\$ (3,134)	\$ 374,628
Additions:			
Contribution to Reserves	48,650		48,650
Interest Contribution to Reserves	9,586		9,586
Net Income		1,866	1,866
Deduction:			
Reserve Expenditures	<u>(4,740)</u>		<u>(4,740)</u>
Balance as of December 31, 2005	\$ 431,258	\$ (1,268)	\$ 429,990
Additions:			
Contribution to Reserves	49,195		49,195
Interest Contribution to Reserves	14,363		14,363
Deductions:			
Bridge Repair	(13,888)		(13,888)
Pool	(9,547)		(9,547)
Basketball Court	(5,297)		(5,297)
Clubhouse Renovation	(227,490)		(227,490)
Net Loss		<u>(2,609)</u>	<u>(2,609)</u>
Balance as of December 31, 2006	<u>\$ 238,594</u>	<u>\$ (3,877)</u>	<u>\$ 234,717</u>

See Accompanying Notes to Financial Statements

TRURO HOMES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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 to a one time assessment 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 developer 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.

E) Reclassifications - Certain amounts have been reclassified in the accompanying 2005 financial statements to conform to the 2006 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, 2006 AND 2005
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

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.

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 \$49,195 (approximately \$11 per home per month) from assessments has been included in the 2006 financial statements. Additionally, during 2006, the Association also contributed \$14,363 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, 2006 and 2005, the Association had designated \$238,594 and \$431,258, respectively, for replacement reserves. These designated reserves were not fully 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, 2006, 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>
PNC Bank	Checking	\$ 22,394	\$ -	\$ 22,394
United	Money Market	41,658		41,658
U.S. Government	Treasury Bill		<u>170,665</u>	<u>170,665</u>
	Totals	<u>\$ 64,052</u>	<u>\$ 170,665</u>	<u>\$ 234,717</u>

TRURO HOMES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(CONTINUED)

NOTE 5 - CASH AND INVESTMENTS: (CONTINUED)

It is the intent of the Association to hold all debt securities to maturity; therefore, the U.S. government Treasury bill is reflected at cost. As of December 31, 2006, the market value of the U.S. Government Treasury bill approximated cost.

NOTE 6 - RELATED PARTY TRANSACTIONS:

During 2006 and 2005, the Association paid two members of the Association for their services as treasurer, ACC compliance, and record keeper. For 2006 and 2005, the Association paid \$3,000 per year for Treasury service, and \$850 for ACC compliance in 2006. In addition, for 2006 and 2005 the Association paid \$6,450 and \$6,000, respectively, for record keeping.

TRURO HOMES ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2006
(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.

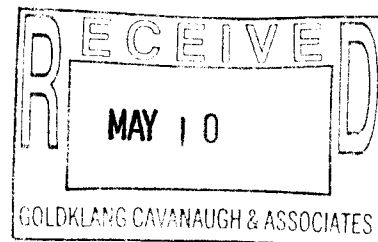
The following has been extracted from the Association's replacement reserve study and presents significant information about the components of common property.

<u>Component</u>	<u>2004 Estimated Remaining Useful Life (Years)</u>	<u>2004 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

Truro Homes Association

Date MAY 7, 2006

GOLDKLANG, CAVANAUGH & ASSOCIATES, P.C.
1801 Robert Fulton Drive, Suite 200
Reston, Virginia 20191



Dear Auditors:

2244

We are providing this letter in connection with your audits of the financial statements of **Truro Homes Association** as of **December 31, 2006 and 2005**, and for the years then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the statements of Assets and Equity arising from cash transactions and the related statements of Revenue and Expenses and Changes in Members' Equity. These statements are presented in conformity with the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We confirm that we are responsible for the fair presentation in these financial statements. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm, **to the best of our knowledge and belief**, the following representations made to you during your audits:

1. The financial statements referred to above are prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.
2. We are responsible for the fair presentation of the supplemental information accompanying the financial statements about future major repairs and replacements.
3. We have made available to you all –
 - A) Financial records and related data.
 - B) Minutes of meetings of the Board of Directors.
4. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
5. There are no material transactions that have not been properly recorded in accounting records underlying the financial statements.
6. We are in agreement with the adjusting journal entries you have recommended, and they have been posted to the Association's accounts, if appropriate.
7. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
8. We have no knowledge of any fraud or suspected fraud affecting the Association involving:
 - A) management,
 - B) employees who have significant roles in internal control, or
 - C) others where the fraud could have a material effect on the financial statements.

9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Association received in communications from employees, former employees, owners, regulators, or others.
10. The Association has no undisclosed plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
11. The following have been properly recorded or disclosed in the financial statements –
 - A) Related party transactions and related accounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangement, and guarantees.
 - B) Guarantees, whether written or oral, under which the Association is contingently liable.
12. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that near term means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the Association vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements. We understand that concentrations include individual or group concentrations of sources of labor, services, suppliers or lenders. We further understand that severe impact means a significantly financially disruptive effect on the normal functioning of the Association.
13. There are no -
 - A) Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - B) Pending or threatened litigation, claims or unasserted claims that are required to be accrued or disclosed in the financial statements in accordance with Statement of Financial Accounting Standards No. 5, and we have not consulted a lawyer concerning litigation or claims.
 - C) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
14. The Association has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged, except as made known to you and disclosed in the notes to the financial statements.
15. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
16. The board of directors is collecting funds for future major repairs and replacements in conformity with the Association's policy to fund for those needs based on a study conducted in 2004. The board of directors believes the funds will adequately provide for future major repairs and replacements.
17. We have reviewed the transactions affecting replacement reserves (including inter-equity transfers). We are in agreement with them and they are properly authorized and approved.
18. Based on the advice of an insurance professional, insurance coverage is considered adequate for any anticipated property damage losses or liability claims.
19. We have reviewed our investments in debt securities, if any, and their maturity dates. It is our intent to hold these investments to maturity and there are no known factors, at this time, which would alter that ability.

- 20. If we intend to print a portion of your report (not in its entirety), we will notify you in advance, and you will have the opportunity to review such printed material before its issuance.
- 21. We have disclosed to you all material events, if any, that would require adjustments to, or disclosure in, the financial statements. In addition, we represent that no other material events have occurred since you completed your audit fieldwork on April 9, 2007 and through the date of this letter. Examples of material events include, but are not limited to, contracts for replacement reserve expenditures, losses due to a fire, changes in ongoing litigation or new litigation and approval of special assessments. Material events that have occurred are:

**Truro Homes Association
December 31, 2006 and 2005**

Management Representative: *David A. White*

Signature *David A. White*

Printed Name *David A. White*

President/Treasurer:

Signature *C. W. Rapier*

Printed Name *C. W. Rapier*

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April 26, 2007

Board of Directors
Truro Homes Association
Annandale, Virginia

Dear Board Members:

In planning and performing our audit of the financial statements of Truro Homes Association as of December 31, 2006 and for the year then ended, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we noted certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following to be significant deficiencies in internal control.

Segregation of Duties

The Association's has a limited number of individuals performing the accounting functions. This limited number of individuals prevents the Association from segregating all accounting functions.

Cash Basis

The Association's books are maintained on a cash basis of accounting throughout the year. The Association's financial statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the above deficiency regarding the cash basis of accounting constitutes a material weakness.

This communication is intended solely for the information and use of management and the board of directors and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Goldklang, Cavanaugh & Associates, P.C.

GOLDKLANG, CAVANAUGH & ASSOCIATES, P.C.

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April 26, 2007

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, 2006, we make the following comments and recommendations.

Financial Analysis

As of December 31, 2006, the Association had a deficit of \$3,877 in unappropriated members' equity (operating funds). Because of this deficit, replacement reserves are not fully funded. We recommend the Association continue to budget to eliminate this deficit and to accumulate a buffer of 10% to 20% of annual assessments as excess operating funds.

Detailed Minutes of Board Meetings

Minutes of board meetings are important records of the decisions concerning areas of the Association's business and financial affairs. A review of the Association's minutes for 2006 showed good form. We recommend the Association continue to maintain financially detailed minutes.

Legal Expense

During 2006, the Association paid \$5,000 for legal services. Subsequently, as a result of arbitration, a homeowner was ordered to reimburse the Association for this legal expense. We recommend the Association pursue this reimbursement.

Segregation of Duties

Different individuals should perform the following functions: authorization, custody, record keeping and reconciliation in order to strengthen the internal controls of the Association. In the

Association's case, a Board member, other than the Treasurer, could open and examine the bank statements. This would separate the record keeping and reconciliation functions.

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.)