

Goldklang, Cavanaugh & Associates, P.C.

Certified Public Accountants

Principals

Howard A. Goldklang, CPA, MBA
Kevin D. Cavanaugh, CPA
Donald E. Harris, CPA
Anne M. Sheehan, CPA
S. Gail Moore, CPA

MEMBERS OF

American Institute of CPAs
Virginia Society of CPAs
Greater Washington Society of CPAs
Maryland Society of CPAs
Texas Society of CPAs

Managers

Jamie L. Brodnax, CPA
Allison A. Day, CPA
Jeremy W. Powell, CPA
Renee L. Watson, CPA

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, 2007 and 2006, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2007 and 2006, and its Revenue and Expenses, and Changes in Members' Equity during the years the ended, on the basis of accounting described in Note 2.

Maryland

1700 Rockville Pike, Suite 400
Rockville, Maryland 20852
Phone (301) 998-6581
Fax (866) 416-9212

Virginia and Administrative Office

1801 Robert Fulton Drive, Suite 200
Reston, Virginia 20191
Phone (703) 391-9003
Fax (703) 391-9004
www.gcacpas.com

Texas

777 Lonesome Dove Trail, Suite B
Hurst, Texas 76054
Phone (800) 934-7006
Fax (866) 416-9212

The supplementary information on future major repairs and replacements on page 9 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.

Geldklang, Cavanaugh & Associates, P.C.

May 5, 2008

TRURO HOMES ASSOCIATION
STATEMENTS OF ASSETS AND EQUITY
DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 36,588	\$ 64,052
Investments	<u>246,289</u>	<u>170,665</u>
Total Assets	<u>\$ 282,877</u>	<u>\$ 234,717</u>
<u>MEMBERS' EQUITY</u>		
Replacement Reserves	\$ 273,613	\$ 238,594
Unappropriated Members' Equity (Deficit)	<u>9,264</u>	<u>(3,877)</u>
Total Members' Equity	<u>\$ 282,877</u>	<u>\$ 234,717</u>

See Accompanying Notes to Financial Statements

TRURO HOMES ASSOCIATION
STATEMENTS OF REVENUE AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007			2006		
	THA	TCC	Total	THA	TCC	Total
INCOME:						
Assessments	\$ 75,544	\$ 147,825	\$ 223,369	\$ 75,400	\$ 138,345	\$ 213,745
Interest	11,022		11,022	14,363		14,363
TCC Lease		8,023	8,023		5,940	5,940
Other	9,222	4,309	13,531	3,923	5,120	9,043
Total Income	<u>\$ 95,788</u>	<u>160,157</u>	<u>\$ 255,945</u>	<u>\$ 93,686</u>	<u>149,405</u>	<u>\$ 243,091</u>
EXPENSES:						
Record Keeper	3,345	\$ 3,345	\$ 6,690	\$ 3,225	\$ 3,225	\$ 6,450
Treasurer	1,500	1,500	3,000	1,500	1,500	3,000
Legal and Audit	2,111		2,111	8,530		8,530
Insurance	14,578	5,392	19,970	16,742	6,192	22,934
Internet Site	378		378	475		475
Office Supplies	3,473		3,473	2,665		2,665
Publicity and Newsletter	3,703		3,703	3,522		3,522
Membership Fees	514		514	425		425
Gas		2,007	2,007		2,021	2,021
Telephone	435	1,015	1,450	525	1,210	1,735
Electricity		3,602	3,602		3,168	3,168
Water and Sewer		2,523	2,523		2,709	2,709
Parkland Maintenance	13,170		13,170	25,086		25,086
Landscaping		16,664	16,664		14,671	14,671
Facility Maintenance		4,200	4,200		-	-
Swim and Dive Team		9,928	9,928		9,796	9,796
Gatekeeper		718	718		360	360
Repairs and Maintenance		14,613	14,613		8,706	8,706
Social Activities	1,568		1,568	1,302		1,302
Chemicals and Supplies		10,313	10,313		9,686	9,686
Pool Management		51,550	51,550		48,929	48,929
Pool Furniture		5,194	5,194		4,386	4,386
Security	818		818	662		662
Taxes, Permits and Licenses	970		970	924		924
Total Expenses	<u>\$ 46,563</u>	<u>\$ 132,564</u>	<u>\$ 179,127</u>	<u>\$ 65,583</u>	<u>\$ 116,559</u>	<u>\$ 182,142</u>
Net income before Contribution to Reserves and Interest Contribution to Reserves	\$ 49,225	\$ 27,593	\$ 76,818	\$ 28,103	\$ 32,846	\$ 60,949
Contribution to Reserves	(22,585)	(30,070)	(52,655)	(17,220)	(31,975)	(49,195)
Interest Contribution to Reserves	(11,022)		(11,022)	(14,363)		(14,363)
Net Income (Loss)	<u>\$ 15,618</u>	<u>\$ (2,477)</u>	<u>\$ 13,141</u>	<u>\$ (3,480)</u>	<u>\$ 871</u>	<u>\$ (2,609)</u>

TRURO HOMES ASSOCIATION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity (Deficit)</u>	<u>Total Members' Equity</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		(2,609)	(2,609)
Balance as of December 31, 2006	\$ 238,594	\$ (3,877)	\$ 234,717
Additions:			
Contribution to Reserves	52,655		52,655
Interest Contribution to Reserves	11,022		11,022
Net Income		13,141	13,141
Deductions:			
Bridge Repair	(13,500)		(13,500)
Siding	(6,725)		(6,725)
Clubhouse Renovation	(1,636)		(1,636)
Tennis Court	(6,797)		(6,797)
Balance as of December 31, 2007	<u>\$ 273,613</u>	<u>\$ 9,264</u>	<u>\$ 282,877</u>

See Accompanying Notes to Financial Statements

TRURO HOMES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

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 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.

E) Reclassifications - Certain amounts have been reclassified in the accompanying 2006 financial statements to conform to the 2007 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, 2007 AND 2006
(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 \$52,655 from assessments has been included in the 2007 financial statements. Additionally, during 2007, the Association also contributed \$11,022 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, 2007 and 2006, the Association had designated \$273,613 and \$238,594, 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, 2007, 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	\$ 14,557	\$ -	\$ 14,557
United	Money Market	22,031		22,031
U.S. Government	Treasury Bill		<u>246,289</u>	<u>246,289</u>
	Totals	<u>\$ 36,588</u>	<u>\$ 246,289</u>	<u>\$ 282,877</u>

TRURO HOMES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(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, 2007, the market value of the U.S. Government Treasury bill approximated cost.

NOTE 6 - RELATED PARTY TRANSACTIONS:

During 2007 and 2006, the Association paid two members of the Association for their services as treasurer, ACC compliance, and record keeper. For 2007 and 2006, the Association paid \$3,000 per year for Treasury service, and \$850 for ACC compliance in 2006. In addition, for 2007 and 2006, the Association paid \$6,690 and \$6,450, respectively, for record keeping.

NOTE 7 - SUBSEQUENT EVENT:

Subsequent to year-end, the Association entered into a contract for an aluminum roof under the clubhouse deck. The cost of the project was \$6,400 and will be funded from replacement reserves.

TRURO HOMES ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2007
(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