



Principals

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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 statements of assets and equity – cash basis as of December 31, 2012 and 2011, and the related statements of revenue and expenses – cash basis, and changes in members' equity – cash basis for the years 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 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 audit opinion.

Basis for Qualified Opinion

As discussed in Note 8, The Association omitted the revenue and expenses, and changes in members' equity with respect to the Association's swim and dive teams, which are a part of the Association. The only transaction shown in the financial statements is the Association's annual contribution toward the teams' activities.

Opinion

In our opinion, except for the effects of not reflecting the financial activity for the swim and dive teams, as discussed in the Basis for Qualified Opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Truro Homes Association as of December 31, 2012 and 2011, 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
May 11, 2013

TRURO HOMES ASSOCIATION
STATEMENTS OF ASSETS AND EQUITY - CASH BASIS
DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ <u>263,471</u>	\$ <u>262,703</u>
Total Assets	\$ <u>263,471</u>	\$ <u>262,703</u>
<u>MEMBERS' EQUITY</u>		
Replacement Reserves	\$ 270,921	\$ 265,854
Unappropriated Members' Equity (Deficit)	<u>(7,450)</u>	<u>(3,151)</u>
Total Members' Equity	\$ <u>263,471</u>	\$ <u>262,703</u>

TRURO HOMES ASSOCIATION
STATEMENTS OF REVENUE AND EXPENSES - CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012			2011		
	THA	TCC	Total	THA	TCC	Total
<u>INCOME:</u>						
Assessments	\$ 84,830	\$ 172,685	\$ 257,515	\$ 81,056	\$ 169,420	\$ 250,476
Special Assessment			-	18,850		18,850
Interest	1,264		1,264	2,023		2,023
TCC Lease		9,565	9,565		6,925	6,925
Other	3,170	4,512	7,682	1,633	4,776	6,409
Total Income	<u>\$ 89,264</u>	<u>\$ 186,762</u>	<u>\$ 276,026</u>	<u>\$ 103,562</u>	<u>\$ 181,121</u>	<u>\$ 284,683</u>
<u>EXPENSES:</u>						
Record Keeper	\$ 3,100	\$ 3,100	\$ 6,200	\$ 3,000	\$ 3,000	\$ 6,000
Treasurer	1,705	1,705	3,410	1,652	1,651	3,303
Legal and Audit	7,095		7,095	3,612		3,612
Insurance	14,718	6,308	21,026	13,477	5,772	19,249
Internet Site	355		355	384		384
Office Supplies	3,248		3,248	2,976		2,976
Publicity and Newsletter	1,178		1,178	867		867
Membership Fees	450		450	485		485
Air Conditioning			-	22,112		22,112
Gas		967	967		1,541	1,541
Telephone		1,279	1,279		1,201	1,201
Electricity		4,464	4,464		5,334	5,334
Water and Sewer		2,141	2,141		2,886	2,886
Parkland Maintenance	24,833		24,833	24,328		24,328
Landscaping		17,422	17,422		15,545	15,545
Facility Maintenance		7,713	7,713		7,452	7,452
Swim and Dive Team		9,500	9,500		9,500	9,500
Gatekeeper		600	600		600	600
Repairs and Maintenance		15,829	15,829		17,087	17,087
Social Activities	1,433		1,433	2,006		2,006
Chemicals and Supplies		8,738	8,738		13,347	13,347
Pool Management		63,140	63,140		60,910	60,910
Pool Furniture		10,176	10,176		5,695	5,695
Security	958		958	1,153		1,153
Taxes, Permits and Licenses	1,431		1,431	1,530		1,530
Total Expenses	<u>\$ 60,504</u>	<u>\$ 153,082</u>	<u>\$ 213,586</u>	<u>\$ 77,582</u>	<u>\$ 151,521</u>	<u>\$ 229,103</u>
Net Income before Contribution to Reserves and Interest Contribution to Reserves	\$ 28,760	\$ 33,680	\$ 62,440	\$ 25,980	\$ 29,600	\$ 55,580
Contribution to Reserves	(31,125)	(34,350)	(65,475)	(34,470)	(36,190)	(70,660)
Interest Contribution to Reserves	(1,264)		(1,264)	(2,023)		(2,023)
Net Income (Loss)	<u>\$ (3,629)</u>	<u>\$ (670)</u>	<u>\$ (4,299)</u>	<u>\$ (10,513)</u>	<u>\$ (6,590)</u>	<u>\$ (17,103)</u>

See Accompanying Notes to Financial Statements

TRURO HOMES ASSOCIATION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY - CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity (Deficit)</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2010	\$ 243,188	\$ (3,151)	\$ 240,037
Additions:			
Contribution to Reserves	70,660		70,660
Interest Contribution to Reserves	2,023		2,023
Inter-Equity Transfer	(17,103)	17,103	
Deductions:			
Drainage	(13,690)		(13,690)
Doors	(11,472)		(11,472)
Maintenance	(2,230)		(2,230)
Asphalt	(5,522)		(5,522)
Net Loss	<u>(17,103)</u>	<u>(17,103)</u>	<u>(17,103)</u>
Balance as of December 31, 2011	\$ 265,854	\$ (3,151)	\$ 262,703
Additions:			
Contribution to Reserves	65,475		65,475
Interest Contribution to Reserves	1,264		1,264
Deductions:			
Dive Boards	(7,332)		(7,332)
Deck	(2,650)		(2,650)
Mulch	(7,638)		(7,638)
Bridge	(7,490)		(7,490)
Pool Handrails and Handicap lift	(7,396)		(7,396)
Paint	(16,001)		(16,001)
Pool Concrete Repair	(13,165)		(13,165)
Net Loss	<u>(4,299)</u>	<u>(4,299)</u>	<u>(4,299)</u>
Balance as of December 31, 2012	<u>\$ 270,921</u>	<u>\$ (7,450)</u>	<u>\$ 263,471</u>

See Accompanying Notes to Financial Statements

TRURO HOMES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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.

TRURO HOMES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

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

The study recommends a contribution to reserves of \$58,562 for 2012. For 2012, the Association budgeted to contribute \$65,475 to reserves. In addition, the Association contributed interest income of \$1,264 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, 2012 and 2011, the Association had designated \$270,921 and \$265,854, 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.

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended December 31, 2012 and 2011, 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, 2012, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>
PNC	Checking	\$ 5,677
PNC	Money Market	11,814
CapitalOne360	Savings	<u>245,980</u>
	Total	<u>\$ 263,471</u>

TRURO HOMES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(CONTINUED)

NOTE 6 - RELATED PARTY TRANSACTIONS:

During 2012 and 2011, 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 2012 and 2011, the Association paid approximately \$4,482 and \$5,646, respectively, for treasurer and other services. In addition, for 2012 and 2011, the Association paid \$6,200 and \$6,000, respectively, for record keeping. No amounts were owed for these services as of December 31, 2012 and 2011.

NOTE 7 - SPECIAL ASSESSMENT:

For 2011, the Association approved a special assessment in the amount of \$50 per home, total of \$18,850, for air conditioning installation in the club house. The special assessment was collected with regular assessments in March 2011. The cost of the air conditioning project was \$22,112.

NOTE 8 - SWIM AND DIVE TEAMS:

For 2012 and 2011, the Association did not include the swim and dive teams' activities in its financial statements. Accordingly, the only transaction reflected in the financial statements is the Association's budgeted contribution to the teams' activities in the amount of \$9,500 per year.

NOTE 9 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 11, 2013, the date the financial statements were available to be issued.

Subsequent to year end, the Association paid approximately \$14,000 for pool deck repair and approximately \$7,000 for pool shade. These projects were funded by replacement reserves.

TRURO HOMES ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2012
(UNAUDITED)

The Association had a replacement reserve study conducted by Miller Dodson Associates, Inc. during 2009 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. 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>2009 Estimated Remaining Useful Life (Years)</u>	<u>2009 Estimated Replacement Cost</u>
Site Improvements	0-25	\$ 522,490
Swimming Pool	0-31	595,768
Club House Exterior	0-28	121,333
Club House Interior	0-27	100,221
Club House Extension Exterior	7-47	30,642



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Management Letter

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.

May 7, 2013

Board of Directors
Truro Homes Association

Dear Board Members:

We have audited the financial statements of Truro Homes Association for the year ended December 31, 2012. During our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. As a result, we make the following comments and recommendations.

Financial Analysis

As of December 31, 2012, the Association had a deficit of \$7,450 in unappropriated members' equity (operating funds). We recommend the Association accumulate excess operating funds to a level of 10% to 20% of annual assessments. This procedure should ensure that potential operating deficits will not consume funds designated for replacement reserves.

The designated replacement reserves of \$270,921 were not fully funded due to the deficit in unappropriated members' equity.

Swim and Dive Teams

The Association makes annual contributions to the swim and dive teams, which are recorded in the expense section of the Association's financial statements. The swim and dive teams' transactions are not included in the Association's financial statements. In 2012, the Association obtained a legal opinion that the teams are a part of the Association, and not separate entities. We continue to recommend the Association address this issue, and include the teams' activities in its financial statements.

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 2012 showed good form. We recommend the Association continue to maintain financially detailed minutes.

Cash Basis Accounting

The Association presents its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles generally accepted in the United States of America.

Insurance

We recommend the Association meet with its insurance agent at least annually to discuss insurance coverage. The Association should make sure the insurance policies provide the necessary and appropriate protection. In addition to all of the standard coverage that is usually recommended, the Association should maintain appropriate crime and directors & officers (D&O) coverage. At a minimum, the Association should maintain crime coverage that equals or exceeds the total of its funds or as required by state law. It should be structured to include a defalcation or misappropriation committed by a Board member, an employee of the Association, or employees of the management company, including principals.

Federal Deposit Insurance Corporation (FDIC)

On July 21, 2010, the FDIC insurance limit of \$250,000 per financial institution was extended permanently. Also, effective December 31, 2010 and through December 31, 2012, all non-interest bearing transaction accounts (checking accounts) had unlimited FDIC insurance. This unlimited FDIC insurance expired on December 31, 2012. We recommend the Association monitor its accounts and immediately transfer funds in excess of the FDIC limit to other institutions or Treasury instruments so all Association funds will be insured. The Association should also periodically check the ratings for all financial institutions used by the Association.

We shall be pleased to discuss our comments and recommendations in greater detail and 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 Group CPAs, P.C.

GOLDKLANG GROUP CPAs, P.C.



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Communication with Those Charged with Governance under SAS No. 114

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.

May 7, 2013

Board of Directors
Truro Homes Association

Dear Board Members:

We have audited the financial statements of Truro Homes Association as of December 31, 2012 and for the year then ended and have issued our report thereon. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility for the supplementary information required by the Financial Accounting Standards Board, as described by professional standards, is to apply certain limited procedures to the information about management's methods of preparing the information; however, we will not express an opinion or any assurance on the information.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the CIRA and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result

from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Association or to acts by management or employees acting on behalf of the Association. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Association are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant accounting estimates for the year under audit.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no significant disclosures to the financial statements for the year under audit.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The adjusting journal entries have been provided to the Association. The journal entries are material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Association’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Required Supplementary Information

With respect to the supplementary information required by the Financial Accounting Standards Board, we applied certain limited procedures to the information, including inquiring of management about their methods of preparing the information; comparing the information for consistency with management’s responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements; and obtaining certain representations from management, including about whether the required supplementary information is measured and presented in accordance with prescribed guidelines.

Very truly yours,

Goldklang Group CPAs, P.C.

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Communication of Significant Deficiencies and/or Material Weaknesses under SAS No. 115

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.

May 7, 2013

Board of Directors
Truro Homes Association

Dear Board Members:

In planning and performing our audit of the financial statements of Truro Homes Association as of December 31, 2012 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 auditing procedures that are appropriate in the circumstances 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 was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses or other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in internal control to be material weaknesses:

Cash Basis of Accounting Used

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. The absence of controls over preparing the financial statements on the accrual basis of accounting, which is in accordance with U.S. GAAP, is considered a material weakness because there is a reasonable possibility that a material misstatement of the financial statements could occur and not be prevented, or detected and corrected, by the Association's internal control.

Swim and Dive Teams

The Association omitted the revenue and expenses, and changes in members' equity with respect to the Association's swim and dive teams, which are a part of the Association. The only transaction shown in the financial statements is the Association's annual contribution toward the team's activity. The swim and dive team activity could be material; therefore, the omission is considered a material weakness because there is a reasonable possibility that a material misstatement of the financial statements could occur and not be prevented, or detected and corrected, by the Association's internal control.

Adjusting Entries

We proposed material adjustments to reclassify replacement reserves on the statement of assets and equity and to reclassify current year budgeted contribution to replacement reserves. The material adjustment we proposed is considered a material weakness because the adjustment corrected a material misstatement in the Association's financial statements. A material misstatement is considered a material weakness because the misstated financial statements could be relied upon to make important business decisions.

Very truly yours,

Goldklang Group CPAs, P.C.

GOLDKLANG GROUP CPAs, P.C.