

# Goldklang Group<sup>®</sup>

CPAs, P.C.

## Principals

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## Managers

Allison A. Day, CPA  
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## Independent Auditor's Report

Board of Directors  
Colonial Village (Village I), A Condominium  
Arlington, Virginia

We have audited the accompanying Balance Sheets of Colonial Village (Village I), A Condominium as of December 31, 2011 and 2010, and the related Statements of Income, Members' Equity and Cash Flow 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Colonial Village (Village I), A Condominium as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 11 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.*

November 28, 2012

COLONIAL VILLAGE (VILLAGE I), A CONDOMINIUM  
BALANCE SHEETS  
DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 189,225	\$ 105,299
Assessments Receivable - Net	4,381	2,792
Income Taxes Receivable	1,079	1,556
Accounts Receivable - Laundry	1,879	1,306
Accounts Receivable - Other	308	119
Prepaid Expenses	<u>12,175</u>	<u>11,086</u>
 Total Assets	 <u>\$ 209,047</u>	 <u>\$ 122,158</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 37,622	\$ 113,562
Due to Related Communities	17,601	25
Prepaid Assessments	24,457	23,282
Deferred Laundry Income	2,000	6,000
Deferred Cable Income	<u>14,310</u>	<u>-</u>
Total Liabilities	<u>\$ 95,990</u>	<u>\$ 142,869</u>
 Replacement Reserves	 \$ 88,395	 \$ 42,406
Operating Reserve	14,363	14,363
G-4 Office and Greenspace Fund	6,257	6,257
Unappropriated Members' Equity (Deficit)	<u>4,042</u>	<u>(83,737)</u>
Total Members' Equity (Deficit)	<u>\$ 113,057</u>	<u>\$ (20,711)</u>
 Total Liabilities and Members' Equity	 <u>\$ 209,047</u>	 <u>\$ 122,158</u>

See Accompanying Notes to Financial Statements

COLONIAL VILLAGE (VILLAGE I), A CONDOMINIUM  
STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
<u>INCOME:</u>		
Assessments	\$ 782,064	\$ 745,104
Cable	1,590	-
Interest	75	1,870
Laundry	25,218	21,789
Bad Debt Recovery	2,984	447
Other	15,376	16,537
Total Income	\$ 827,307	\$ 785,747
<u>EXPENSES:</u>		
Management	\$ 34,775	\$ 33,450
Audit and Tax Preparation	3,775	4,250
Legal	7,133	4,288
Postage and Printing	2,619	4,286
Telephone	4,857	4,988
Administrative	9,328	16,083
Insurance	31,525	21,426
Payroll and Related Costs	144,190	141,336
Electricity	22,382	20,387
Gas	26,891	37,885
Water and Sewer	81,717	68,517
Trash Removal	35,366	36,106
Cleaning Contract	37,528	36,033
Extermination	10,658	12,456
Grounds	68,150	62,532
Snow Removal	1,761	12,653
Building Repairs and Maintenance	23,873	32,757
Total Expenses	\$ 546,528	\$ 549,433
Net Income before Contribution to Reserves	\$ 280,779	\$ 236,314
Contribution to Reserves	(193,000)	(164,597)
Net Income	\$ 87,779	\$ 71,717

See Accompanying Notes to Financial Statements

COLONIAL VILLAGE (VILLAGE I), A CONDOMINIUM  
STATEMENTS OF MEMBERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>Replacement Reserves</u>	<u>Operating Reserve</u>	<u>G-4 Office and Greenspace Fund</u>	<u>Unappropriated Members' Equity (Deficit)</u>	<u>Total Members' Equity (Deficit)</u>
Balance as of December 31, 2009 (Restated)	\$ 112,630	\$ 14,363	\$ 6,257	\$ (155,454)	\$ (22,204)
Additions:					
Contribution to Reserves	164,597				164,597
Contribution from Special Assessments	52,820				52,820
Net Income				71,717	71,717
Deduction:					
Reserve Expenditures	<u>(287,641)</u>				<u>(287,641)</u>
Balance as of December 31, 2010	\$ 42,406	\$ 14,363	\$ 6,257	\$ (83,737)	\$ (20,711)
Additions:					
Contribution to Reserves	193,000				193,000
Net Income				87,779	87,779
Deductions:					
Roof & Gutter Replacement	(38,440)				(38,440)
Landscaping	(3,365)				(3,365)
Plumbing	(4,475)				(4,475)
Other	(2,459)				(2,459)
Painting	(350)				(350)
Consulting	(2,175)				(2,175)
Masonry Repairs	(85,865)				(85,865)
Water Heater	(6,195)				(6,195)
Reserve Study	(2,850)				(2,850)
Metal Railings	<u>(837)</u>				<u>(837)</u>
Balance as of December 31, 2011	<u>\$ 88,395</u>	<u>\$ 14,363</u>	<u>\$ 6,257</u>	<u>\$ 4,042</u>	<u>\$ 113,057</u>

See Accompanying Notes to Financial Statements

COLONIAL VILLAGE (VILLAGE I), A CONDOMINIUM  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 87,779	\$ 71,717
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Allowance for Doubtful Assessments	(3,168)	(1,127)
Decrease (Increase) in:		
Assessments Receivable	1,579	12,126
Income Taxes Receivable	477	(1,556)
Accounts Receivable - Laundry	(573)	(1,306)
Accounts Receivable - Other	(189)	(19)
Prepaid Expenses	(1,089)	(5,753)
Increase (Decrease) in:		
Accounts Payable	(75,940)	(10,616)
Due to Related Communities	17,576	25
Prepaid Assessments	1,175	(16,927)
Deferred Laundry Income	(4,000)	(4,000)
Deferred Cable Income	14,310	-
Net Cash Flows from Operating Activities	<u>\$ 37,937</u>	<u>\$ 42,564</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 193,000	\$ 164,597
Received from Special Assessments	-	52,820
Disbursed for Reserve Expenditures	(147,011)	(287,641)
Received from Interest-Bearing Deposits	-	100,000
Net Cash Flows from Investing Activities	<u>\$ 45,989</u>	<u>\$ 29,776</u>
Net Change in Cash and Cash Equivalents	\$ 83,926	\$ 72,340
Cash and Cash Equivalents at Beginning of Year	<u>105,299</u>	<u>32,959</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 189,225</u></u>	<u><u>\$ 105,299</u></u>

See Accompanying Notes to Financial Statements

COLONIAL VILLAGE (VILLAGE I), A CONDOMINIUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

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 Condominium. The Association is located in Arlington, Virginia, and consists of 212 units. The Association administers the Condominium operations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

A) Method of Accounting - The financial statements are presented on the accrual method of accounting in which revenue is recognized when earned and expenses when incurred, not necessarily when received or paid.

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. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent. Any excess assessments at years-end are retained by the Association for use in future years. The Association utilizes the allowance method of accounting for bad debt.

C) Common Property - Real property and common areas acquired from the declarant 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 limited not to, the exterior buildings, mechanical equipment, and site improvements.

D) Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions. Such estimates affect the reported amounts of assets and liabilities. They also affect the disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E) 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.

F) Reclassification - Certain amounts have been reclassified in the accompanying 2010 financial statements to conform to the 2011 presentation.

NOTE 3 - REPLACEMENT RESERVES:

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are generally not available for expenditures for normal operations.

COLONIAL VILLAGE (VILLAGE I), A CONDOMINIUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

The Association had a replacement reserve study conducted by Reserve Advisors, Inc. during 2012. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

For 2011, the Association budgeted to contribute \$193,000 to reserves.

Funds are being accumulated in replacement reserves based on estimates of future needs for repair and replacement of common property components. 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 Board of Directors, on behalf of the Association may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As of December 31, 2011 and 2010, the Association had a balance of \$88,395 and \$42,406, respectively, in replacement reserves. These designated reserves were funded by cash and cash equivalents.

NOTE 4 - INCOME TAXES:

For income tax purposes, the Association may elect annually to file either as an exempt condominium or as an association taxable as a corporation. As an exempt condominium, the Association's net assessment income would be exempt from income tax, but its interest income would be taxed. Electing to file as a corporation, the Association is taxed on its net income from all sources (to the extent not capitalized or deferred) at normal corporate rates after corporate exemption subject to the limitation that operating expenses are deductible only to the extent of income from members. For 2011 and 2010, the income taxes were calculated using the exempt method, which resulted in no income tax liability.

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended December 31, 2011 and 2010, the Association did not incur any penalties and interest related to income taxes. The Association's federal and state tax returns for the past three years remain subject to examination by the Internal Revenue Service and the Commonwealth of Virginia.

COLONIAL VILLAGE (VILLAGE I), A CONDOMINIUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(CONTINUED)

NOTE 5 - CASH AND CASH EQUIVALENTS:

As of December 31, 2011, the Association maintained funds in the following manner:

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>
Mutual of Omaha	Checking	\$ 169,034
Mutual of Omaha	Money Market	20,091
Petty Cash	Imprest	100
	Total	<u>\$ 189,225</u>

NOTE 6 - ASSESSMENTS RECEIVABLE - NET:

The Association utilizes the allowance method of accounting for bad debt. Individual receivables are written off as a loss when a determination is made that they are non-collectible. Under the allowance method, collection efforts may continue and recoveries of amounts previously written off are recognized as income in the years of collection.

	<u>2011</u>	<u>2010</u>
Assessments Receivable	\$ 5,213	\$ 6,792
Less: Allowance for Doubtful Assessments	<u>(832)</u>	<u>(4,000)</u>
Assessments Receivable - Net	<u>\$ 4,381</u>	<u>\$ 2,792</u>

NOTE 7 - PAYROLL AND RELATED COSTS:

The Association's management agent utilizes a central management payroll system, whereby payroll returns were filed under the management agent's name and federal identification number. In addition to the payment of management fees, the Association reimbursed management for wages, payroll taxes, workers' compensation and health insurance for employees that performed work for the Association.

NOTE 8 - DEFERRED LAUNDRY INCOME:

The Association signed a laundry contract and as part of the agreement the Association received a laundry room improvement fee. Upon early termination of the agreement this amount would be due back to the vendor based on a prorated portion of the lease. Therefore, this fee is being amortized over the life of the lease and was recorded as deferred laundry proceeds. During 2011 and 2010, \$4,000 was recognized



COLONIAL VILLAGE (VILLAGE I), A CONDOMINIUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(CONTINUED)

NOTE 8 - DEFERRED LAUNDRY INCOME: (CONTINUED)

as income each year to the Association. As of December 31, 2011 and 2010, \$2,000 and \$6,000, respectively was remaining in the deferred laundry proceeds.

NOTE 9 - DEFERRED CABLE INCOME:

The Association signed a 10-year cable agreement beginning January 2011 and ending December 2020. As part of the agreement the Association granted the cable company access to install, maintain and operate broadband communication systems on the Association's premises. In return, the Association received a fee of \$75 per unit for a total of \$15,900. If the agreement is terminated early, a prorated portion of this fee must be returned to the vendor. This fee is being amortized over the life of the agreement and was recorded as deferred cable income. During 2011, \$1,590 was recognized as income to the Association. As of December 31, 2011, \$14,310 was remaining in the deferred cable income.

NOTE 10 - G-4 OFFICE AND GREENSPACE FUND:

The Association's unit G-4 serves as the office for the Association, Colonial Village (Village II), A Condominium, Colonial Village (Village III), A Condominium and Colonial Village Commons. During 1999, the four associations elected to contribute \$5 per unit to fund repairs and maintenance to the office and green space areas. In addition, the Association received rental income for two of the storage rooms. The Association elected to contribute this income to the office and green space fund. During 2011 and 2010, no rental income was received. As of December 31, 2011 and 2010, the balance of the fund was \$6,257.

NOTE 11 - INSURANCE CLAIM (WATER MAIN BREAK):

During 2008, there was a water main break that caused damage to the Association property. The Association spent approximately \$419,000 to repair the damages caused by the water main break. These repairs were funded through replacement reserves and a special assessment.

The Association filed an insurance claim for the damages and was awarded \$10,000. The Association appealed the insurance company's decision through its legal counsel. During 2012, the Association received \$96,901 as settlement for the claim.

COLONIAL VILLAGE (VILLAGE I), A CONDOMINIUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(CONTINUED)

NOTE 12 - PRIOR PERIOD ADJUSTMENT:

The Association charged a special assessment during 2009 of \$53,182, which was recorded as income. The special assessment funded replacement reserve expenditures; therefore the special assessment was reclassified during 2010 to offset the expenditures. This reclassification had the following effect on the financial statements.

	<u>As Originally Stated</u>	<u>Adjustment</u>	<u>As Restated</u>
Replacement Reserves	\$ 59,448	\$ 53,182	\$ 112,630
Unappropriated Members' Equity (Deficit)	(102,272)	(53,182)	(155,454)

NOTE 13 - OPERATING RESERVE:

The Association has established an operating reserve for unexpected contingencies. For 2011 and 2010, the Association did not contribute to this fund. As of December 31, 2011 and 2010, the balance in the operating reserve was \$14,363.

NOTE 14 - MANAGEMENT SERVICES:

The Association retains Legum and Norman, Inc. as its management agent. In addition, Legum and Norman, Inc. provided maintenance and repair services to the Association. During 2011, the Association paid \$0 for these additional services. As of December 31, 2011, \$6,773 was due for these additional services.

NOTE 15 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through November 28, 2012, the date the financial statements were available to be issued.

Subsequent to year-end, the Association entered into the following contracts. These projects will be funded through replacement reserves.

- A) Façade repairs for approximately \$151,000
- B) Exterior painting for \$40,000
- C) Chimney repairs for \$31,953
- D) Roof replacement for \$30,533

COLONIAL VILLAGE (VILLAGE I), A CONDOMINIUM  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2011  
(UNAUDITED)

The Association had a replacement reserve study conducted by Reserve Advisors, Inc. during 2012 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 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>2011 Estimated Remaining Useful Life (Yearss)</u>	<u>2011 Estimated Replacement Cost</u>
Exterior Building Elements	1-19	\$ 610,029
Interior Building Elements	2-22	208,980
Building Services Elements	1-5	107,800
Property Site Elements	1-12	101,085
Reserve Study Update	2	4,800