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Independent Auditor's Report

Board of Directors
Beauregard Estates Homeowners Association
Leesburg, Virginia

We have audited the accompanying Balance Sheets of Beauregard Estates Homeowners Association as of December 31, 2010 and 2009, and the related Statements of Income, Members' Equity and Cash Flows 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 Beauregard Estates Homeowners Association as of December 31, 2010 and 2009, 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.

Beauregard Estates Homeowners Association raises funds for its operations and replacement reserve program through assessment of its members. As of December 31, 2010, the Association had not fully funded its replacement reserves due to the unappropriated members' equity deficit of \$14,626. In order for the Association to maintain financial stability, it must be able to raise and collect sufficient funds from its members to fund an adequate replacement reserve program and meet its operational needs.

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.

June 13, 2011

Goldklang Group CPAs, P.C.

BEAUREGARD ESTATES HOMEOWNERS ASSOCIATION
BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>(Restated)</u> <u>2009</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 29,898	\$ 39,764
Interest-Bearing Deposits	116,113	112,790
Assessments Receivable	1,206	1,824
Income Taxes Receivable	779	464
Prepaid Expenses	<u>272</u>	<u>771</u>
Total Assets	<u>\$ 148,268</u>	<u>\$ 155,613</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 3,185	\$ 9,633
Prepaid Assessments	<u>16,699</u>	<u>5,630</u>
Total Liabilities	<u>\$ 19,884</u>	<u>\$ 15,263</u>
Replacement Reserves	\$ 143,010	\$ 145,543
Unappropriated Members' Equity (Deficit)	<u>(14,626)</u>	<u>(5,193)</u>
Total Members' Equity	<u>\$ 128,384</u>	<u>\$ 140,350</u>
Total Liabilities and Members' Equity	<u>\$ 148,268</u>	<u>\$ 155,613</u>

See Accompanying Notes to Financial Statements

BEAUREGARD ESTATES HOMEOWNERS ASSOCIATION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>(Restated)</u> <u>2009</u>
<u>INCOME:</u>		
Assessments	\$ 69,840	\$ 69,840
Interest	3,536	5,048
Late and Legal Fees	440	1,797
Other	1	331
Total Income	<u>\$ 73,817</u>	<u>\$ 77,016</u>
<u>EXPENSES:</u>		
Management	\$ 9,666	\$ 9,342
Legal, Audit and Tax Preparation	3,104	5,659
Insurance	792	872
Social Committee	585	703
Administrative	4,339	3,647
Grounds Maintenance	36,707	37,092
Snow Removal	14,237	11,865
Common Area Maintenance	490	1,053
Income Taxes	521	249
Total Expenses	<u>\$ 70,441</u>	<u>\$ 70,482</u>
Net Income before Contribution to Reserves	\$ 3,376	\$ 6,534
Contribution to Reserves	<u>(12,809)</u>	<u>(14,437)</u>
Net Income (Loss)	<u>\$ (9,433)</u>	<u>\$ (7,903)</u>

See Accompanying Notes to Financial Statements

BEAUREGARD ESTATES HOMEOWNERS ASSOCIATION
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity (Deficit)</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2008	\$ 124,582	\$ 20,710	\$ 145,292
Additions:			
Contribution to Reserves	14,437		14,437
Contribution to Reserves - Townhomes	1,380		1,380
Inter-Equity Transfer	18,000	(18,000)	
Deductions:			
Curb Repair	(8,700)		(8,700)
Fence	(4,156)		(4,156)
Net Loss		(7,903)	(7,903)
Balance as of December 31, 2009 (As Restated)	\$ 145,543	\$ (5,193)	\$ 140,350
Additions:			
Contribution to Reserves	12,809		12,809
Contribution to Reserves - Townhomes	1,380		1,380
Deductions:			
Asphalt Pavement	(12,500)		(12,500)
Shoulders	(4,000)		(4,000)
Signage	(222)		(222)
Net Loss		(9,433)	(9,433)
Balance as of December 31, 2010	<u>\$ 143,010</u>	<u>\$ (14,626)</u>	<u>\$ 128,384</u>

See Accompanying Notes to Financial Statements

BEAUREGARD ESTATES HOMEOWNERS ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>(Restated)</u> <u>2009</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	\$ (9,433)	\$ (7,903)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Decrease (Increase) in:		
Assessments Receivable	618	(1,047)
Income Taxes Receivable	(315)	(6)
Prepaid Expenses	499	(155)
Increase (Decrease) in:		
Accounts Payable	(6,448)	7,413
Prepaid Assessments	11,069	(4,478)
Net Cash Flows from Operating Activities	<u>\$ (4,010)</u>	<u>\$ (6,176)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 12,809	\$ 14,437
Received from Townhomes (Reserves)	1,380	1,380
Disbursed for Reserve Expenditures	(16,722)	(12,856)
Received from Interest-Bearing Deposits	-	28,760
Disbursed for Interest-Bearing Deposits	(3,323)	(24,219)
Net Cash Flows from Investing Activities	<u>\$ (5,856)</u>	<u>\$ 7,502</u>
Net Change in Cash and Cash Equivalents	\$ (9,866)	\$ 1,326
Cash and Cash Equivalents at Beginning of Year	<u>39,764</u>	<u>38,438</u>
Cash and Cash Equivalents at End of Year	<u>\$ 29,898</u>	<u>\$ 39,764</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 1,300</u>	<u>\$ 1,300</u>

See Accompanying Notes to Financial Statements

BEAUREGARD ESTATES HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 1 - NATURE OF OPERATIONS:

The Association is organized under the laws of the Commonwealth of Virginia for the purposes of maintaining and preserving the common property of the Association. The Association is located in Leesburg, Virginia and consists of 90 single-family homes.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

A) Method of Accounting - The financial statements are presented on the accrual method of accounting, in which revenues are 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 homeowners. 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 year-end are retained by the Association for use in future years. The Association utilizes the allowance method to account 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 since the property cannot be disposed of at the discretion of the Board of Directors. Common property includes but is not limited to, land 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 2009 financial statements to conform to the 2010 presentation.

BEAUREGARD ESTATES HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES:

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

The Association had a replacement reserve study conducted by Reserve Advisors, Inc. in 2007. During 2010, Commercial Assessments updated the study. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on the 2010 study.

The 2007 study recommends a contribution to reserves of \$24,400 plus interest income of \$6,726 for 2010. For 2010, the Association budgeted to contribute \$12,809. The Association contributed \$1,380 to reserves in 2010 which was received from a neighboring association of townhomes.

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, 2010 and 2009, the Association had designated \$143,010 and \$145,543, respectively, for replacement reserves. These designated replacement reserves were not fully funded due to a deficit in unappropriated members' equity.

NOTE 4 - INCOME TAXES:

For income tax purposes, the Association may elect annually to file either as an exempt homeowners association or as an association taxable as a corporation. As an exempt homeowners association, 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 2010 and 2009, the income taxes were calculated using the corporate method.

BEAUREGARD ESTATES HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(CONTINUED)

NOTE 4 - INCOME TAXES: (CONTINUED)

The Association implemented Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 740-10, formerly FIN 48, Accounting for Uncertainty in Income Taxes. The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended December 31, 2010 and 2009, 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.

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of December 31, 2010, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Interest-Bearing Deposits</u>	<u>Total</u>
Mutual of Omaha	Checking	\$ 10,157	\$ -	\$ 10,157
Mutual of Omaha	Money Market	19,741		19,741
Millennium	Certificate of Deposit		95,382	95,382
Millennium	Certificate of Deposit		20,731	20,731
	Totals	<u>\$ 29,898</u>	<u>\$ 116,113</u>	<u>\$ 146,011</u>

NOTE 6 - PRIOR PERIOD ADJUSTMENT:

During 2010, the Association paid \$8,010 for 2009 snow removal costs. These invoices were not previously reflected as expenses on the 2009 financial statements. The addition of these snow removal expenses had the following effect on the 2009 financial statements.

	<u>As Originally Stated</u>	<u>Adjustment</u>	<u>As Restated</u>
Snow Removal Expense	\$ 3,855	\$ 8,010	\$ 11,865
Net Income (Loss)	107	(8,010)	(7,903)
Accounts Payable	1,623	8,010	9,633
Unappropriated Members' Equity (Deficit)	2,817	(8,010)	(5,193)

BEAUREGARD ESTATES HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(CONTINUED)

NOTE 7 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through June 13, 2011, the date the financial statements were available to be issued.

Subsequent to year-end, the Association entered into contracts for shoulder re-grading and asphalt repair and sealcoating in the amounts of \$6,500 and \$3,400, respectively. These projects will be funded from replacement reserves.

BEAUREGARD ESTATES HOMEOWNERS ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2010
(UNAUDITED)

The Association had a replacement reserve study conducted by Commercial Assessments in 2010 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 replacement reserve study and presents significant information about the components of common property.

<u>Component</u>	<u>2011 Estimated Typical Useful Life (Years)</u>	<u>2011 Estimated Replacement Cost</u>
Curbing	7-15	\$ 32,000
Main Entrance	2-10	13,000
Road Shoulders and Culverts	0-9	10,000
Roads - Asphalt	5-12	308,000
Sidewalks - Asphalt	1-6	69,700
Signage	1	5,000