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Independent Auditor's Report

Board of Directors  
Settlers Landing Homeowners Association  
Stafford, Virginia

We have audited the accompanying Balance Sheets of Settlers Landing Homeowners Association as of December 31, 2005 and 2004, and the related Statements of Income and 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 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 Settlers Landing Homeowners Association as of December 31, 2005 and 2004, 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.

Settlers Landing Homeowners Association has not estimated the remaining lives and replacement costs of the common property. Therefore, a replacement reserve schedule that the American Institute of Certified Public Accountants determined to be a required supplement has not been presented. This reserve schedule is not required to be a part of the basic financial statements. The effect of this on future assessments cannot be determined at this time.

November 9, 2006

*Goldklang, Cavanaugh + Associates, P.C.*

SETTLERS LANDING HOMEOWNERS ASSOCIATION  
BALANCE SHEETS  
DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 25,478	\$ 18,418
Interest-Bearing Deposits	31,075	30,654
Assessments Receivable	990	1,461
Prepaid Insurance	<u>2,062</u>	<u>2,042</u>
Total Assets	<u>\$ 59,605</u>	<u>\$ 52,575</u>
 <u>LIABILITIES AND MEMBERS' EQUITY</u>		
Accounts Payable	\$ 631	\$ 770
Income Taxes Payable	-	69
Prepaid Assessments	<u>8,360</u>	<u>7,388</u>
Total Liabilities	<u>\$ 8,991</u>	<u>\$ 8,227</u>
Replacement Reserves	\$ 1,475	\$ -
Unappropriated Members' Equity	<u>49,139</u>	<u>44,348</u>
Total Members' Equity	<u>\$ 50,614</u>	<u>\$ 44,348</u>
Total Liabilities and Members' Equity	<u>\$ 59,605</u>	<u>\$ 52,575</u>

See Accompanying Notes to Financial Statements

SETTLERS LANDING HOMEOWNERS ASSOCIATION  
STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>INCOME:</u>		
Assessments	\$ 15,225	\$ 14,500
Documents	2,025	2,175
Late Fees	1,000	949
Interest	467	325
Other	59	265
Total Income	<u>\$ 18,776</u>	<u>\$ 18,214</u>
 <u>EXPENSES:</u>		
Legal and Audit	\$ 3,185	\$ 1,365
Insurance	2,892	2,902
Newsletter	761	971
Annual Meeting	539	363
Office Supplies	352	863
Administrative	272	896
Grounds	486	19,638
Tree Removal	-	3,283
Common Area Maintenance	4,023	3,849
Bad Debt	-	70
Income Taxes	-	69
Total Expenses	<u>\$ 12,510</u>	<u>\$ 34,269</u>
Net Income (Loss) before Contribution to Reserves	<u>\$ 6,266</u>	<u>\$ (16,055)</u>
Contribution to Reserves	<u>(1,475)</u>	<u>-</u>
Net Income (Loss)	<u>\$ 4,791</u>	<u>\$ (16,055)</u>

See Accompanying Notes to Financial Statements

SETTLERS LANDING HOMEOWNERS ASSOCIATION  
STATEMENTS OF MEMBERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2003	\$ -	\$ 60,403	\$ 60,403
Deduction:			
Net Loss	<u>                    </u>	<u>(16,055)</u>	<u>(16,055)</u>
Balance as of December 31, 2004	\$ -	\$ 44,348	\$ 44,348
Additions:			
Contribution to Reserves	1,475		1,475
Net Income	<u>                    </u>	<u>4,791</u>	<u>4,791</u>
Balance as of December 31, 2005	<u>\$ 1,475</u>	<u>\$ 49,139</u>	<u>\$ 50,614</u>

See Accompanying Notes to Financial Statements

SETTLERS LANDING HOMEOWNERS ASSOCIATION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	\$ 4,791	\$ (16,055)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities		
Decrease (Increase) in:		
Assessments Receivable	471	1,816
Prepaid Insurance	(20)	845
Increase (Decrease) in:		
Accounts Payable	(139)	196
Income Taxes Payable	(69)	(1,031)
Prepaid Assessments	972	7,194
Net Cash Flows from Operating Activities	<u>\$ 6,006</u>	<u>\$ (7,035)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 1,475	\$ -
Received from Interest-Bearing Deposits	-	10,000
Disbursed for Interest-Bearing Deposits	(421)	(270)
Net Cash Flows from Investing Activities	<u>\$ 1,054</u>	<u>\$ 9,730</u>
Net Change in Cash and Cash Equivalents	\$ 7,060	\$ 2,695
Cash and Cash Equivalents at Beginning of Year	<u>18,418</u>	<u>15,723</u>
Cash and Cash Equivalents at End of Year	<u>\$ 25,478</u>	<u>\$ 18,418</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ -</u>	<u>\$ 1,150</u>

See Accompanying Notes to Financial Statements

SETTLERS LANDING HOMEOWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004

NOTE 1 - NATURE OF OPERATIONS:

The Association was formed under the laws of the Commonwealth of Virginia for the purposes of maintaining and preserving the common elements. The Association is located in Stafford, Virginia and consists of 290 homes. The Board of Directors administers the operations of the Association.

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. The financial records of the Association are maintained on the cash basis of accounting throughout the year.

B) Member Assessments - Association members are subject to annual 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 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, land and entrance features.

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 and 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 interest-bearing deposits and investments 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.

SETTLERS LANDING HOMEOWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

The Association has not estimated the remaining useful lives and the replacement costs of the components of common property.

The Association is funding for future major repairs and replacements based on estimates by the Board of Directors and considering amounts previously accumulated in the replacement reserves. Accordingly, the funding recommendation of \$1,475 (approximately \$5 per home per year) from assessments has been included in the 2005 financial statements.

Funds are being accumulated in replacement reserves based on estimates by management. 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, 2005 and 2004, the Association had designated \$1,475 and \$0, respectively, for replacement reserves. These designated reserves were funded by cash and interest-bearing deposits.

NOTE 4 - INCOME TAXES:

For income tax purposes, the Association may elect annually to file either as an exempt homeowner association or as an association taxable as a corporation. As an exempt homeowner 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 2005 and 2004, the income tax expense presented in the financial statements was calculated using the exempt method.

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of December 31, 2005, 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>
SunTrust	Checking	\$ 17,715	\$ -	\$ 17,715

SETTLERS LANDING HOMEOWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(CONTINUED)

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS: (CONTINUED)

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Interest- Bearing Deposits</u>	<u>Total</u>
SunTrust	Money Market	7,763		7,763
SunTrust	Certificate of Deposit		11,581	11,581
SunTrust	Certificate of Deposit		19,494	19,494
	Totals	<u>\$ 25,478</u>	<u>\$ 31,075</u>	<u>\$ 56,553</u>