

THE LAUREN, A CONDOMINIUM
Notes to Financial Statements
December 31, 2003 & 2002

NOTE 1 - NATURE OF ORGANIZATION:

The Lauren, A Condominium (Association), a council of co-owners, was organized under the laws of the District of Columbia on January 30, 1980. The purpose of the Association is to provide for the maintenance, preservation, and architectural control of the lots and common areas of the property within the development for the common benefit of all co-owners. The Lauren, A Condominium, consists of 168 units located in Washington, D.C.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A summary of the major accounting policies followed by the Association is set forth below:

Accounting Basis

The Association maintains its records on the accrual basis of accounting.

Fund Accounting

The Association uses fund accounting, which requires that funds, such as operating funds and replacement funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the Board of Directors and Property Manager. Disbursements from the replacement fund may be made only for designated purposes.

Assessments

Assessments are recorded as revenue when billed; unit owners are assessed monthly. The Association's Board of Directors has the ability, with proper approval by the membership, to assess special assessments when and if the need arises.

Statements of Cash Flows

The Association has adopted the statements of cash flows, and considers all cash demand balances and all highly liquid debt instruments purchased with no fixed maturity to be cash equivalents for purpose of the statement of cash flows.

Commonly Owned Property

It is the Association's policy not to record the value of land, buildings and other donated assets on the financial statements since covenants restrict the Association's ability to sell or dispose of these assets. Land of \$8,006 pertains to the amount of land allocated to the Association owned unit.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Depreciation and Amortization

Fixed assets are carried at cost. Depreciation on assets over \$1,000 is calculated over their estimated useful lives (5-7 years) using the straight-line method. The Association unit is being depreciated over its estimated useful life of 30 years using the straight-line method.

NOTE 3 - INCOME TAXES:

The Association can be classified as a regular corporation or a homeowners association for income tax purposes in accordance with the provisions of the Internal Revenue Code. The Association qualifies for special tax treatment under Section 528 (Homeowners Association) of the Code. However, the Association elected to file its returns as a regular corporation using IRC Section 277 in conjunction with other revenue rulings. The income tax liability for 2003 and 2002 was \$3,759 and \$4,482 respectively, as a regular corporation.

NOTE 4 - FUTURE MAJOR REPAIRS AND REPLACEMENTS:

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

Reserve Advisors, Inc. conducted a study in 2000 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on current estimated replacement costs. Reserve Advisors, Inc. updated the study in 2003. The table included in the Unaudited Supplementary Information on Future Major Repairs and Replacements is based on the 2000 study. The Board funded for major repairs and replacements over the remaining useful lives of the components based on the estimates of future replacement costs adopted by the Board and considering amounts previously accumulated in the replacement fund. Funds are being accumulated in the replacement fund based on estimated current costs for repairs and replacements of common property components. Accordingly, \$144,924 has been included in the 2003 budget.

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NOTE 4 - FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

Actual expenditures and investment income may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As of December 31, 2003, the operating fund owes the reserve fund \$23,263.

NOTE 5 - OWNERS' ASSESSMENTS:

Monthly assessments to owners ranged from \$295 to \$510 and from \$290 to \$501 per month in 2003 and 2002, respectively. Of these amounts, an average of \$56.05 to \$96.90 and \$48.84 to \$84.37 per month per unit was designated to the replacement fund in 2003 and 2002, respectively.

NOTE 6 - LONG-TERM DEBT:

Long-term debt consisted of a mortgage note to a bank with an interest rate of 7.125%, due in installments of \$317.33 monthly, including interest, until October 1, 2016, collateralized by the Condominium unit. The debt was paid off early in 2003 in the amount of \$33,322.

Interest expense for the years 2003 and 2002 was \$1,812 and \$2,321, respectively.

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NOTE 7 - INVESTMENTS:

Investments are recorded at fair market value at December 31, 2003 and 2002 and consisted of the following:

	<u>2003</u>	<u>2002</u>
New South Federal, Certificate of Deposit	\$ 57,514	\$ 53,551
Capital One, Certificate of Deposit	51,589	47,239
Key Bank, Certificates of Deposit	62,622	60,220
Capital One, Certificate of Deposit	62,834	55,371
M & T Bank, Certificate of Deposit	61,491	50,000
New South Federal, Certificate of Deposit	45,900	45,269
Independence Bank, Certificate of Deposit	86,839	85,632
Blue Bonnett Bank, Certificate of Deposit	-	54,233
Principal Bank, Certificate of Deposit	<u>62,043</u>	<u>58,280</u>
 TOTALS	 <u>\$ 490,832</u>	 <u>\$ 509,795</u>

NOTE 8 - CONCENTRATIONS OF CREDIT RISK:

The Association maintains cash balance at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2003 and 2002, the Association's uninsured balances totaled approximately \$17,648 and \$34,861, respectively.

NOTE 9 - PROPERTY AND EQUIPMENT:

	<u>2003</u>	<u>2002</u>
Land	\$ 8,006	\$ 8,006
Condominium Unit	47,482	47,482
Furniture and equipment	41,201	41,201
Equipment	2,981	2,981
Less Accumulated Depreciation	<u>(85,518)</u>	<u>(83,339)</u>
 Total	 <u>\$ 14,152</u>	 <u>\$ 16,331</u>

Depreciation expense for the years ended December 31, 2003 and 2002 was \$2,179.

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NOTE 10 - INTER-EQUITY TRANSFER:

The Board of Directors elected to align the reserve fund equity to actual reserve cash and investments based on the 2000 reserve study at their Board meeting held July 30, 2003. The transfer from the operating fund to the reserve fund in order to accomplish this was in the amount of \$78,132.

NOTE 11 - RELATED PARTY TRANSACTIONS:

During 2003, the Association engaged Desiderio Salinas, an employee of the Association, for various maintenance services in the amount of \$3,583. This dollar amount was paid to him in excess of his routine employment wages with the Association.

The Association engaged Ibeas General Repair for various maintenance services in the amount of \$14,500 during 2003. Mr. Salinas is the owner of Ibeas General Repair.