

THE LAUREN, A CONDOMINIUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - NATURE OF OPERATIONS:

The Condominium was organized under the laws of the District of Columbia in 1980 for the purposes of maintaining and preserving the common property of the condominium. The Association is located in Washington D.C. and consists of 168 units. The Association's Board of Directors 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 revenues are recognized when earned and expenses when incurred, not necessarily when received or paid.

B) Member Assessments - Association members are subject to monthly 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 year-end are retained by the Association for use in future years.

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 because those properties are owned by the individual unit owners in common, and not by the Association. Common property includes, but is not limited to, the exterior structures, mechanical equipment and recreational facilities.

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) Depreciation - Fixed assets are carried at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Items capitalized are depreciated through the statement of income.

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NOTE 3 - REPLACEMENT RESERVES:

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

The Association had a replacement reserve study conducted by an engineer in 2003 and utilizes the component method of funding for replacement reserves. The table included in the Supplementary Information of Future Major Repairs and Replacements is based on this study.

The Association is funding for future major repairs and replacements over the remaining useful lives of the components based on the study's estimates of the replacement costs and considering amounts previously accumulated in the replacement reserves. Accordingly, the funding recommendation of \$146,084 (approximately \$72 per unit per month) has been included in the 2005 financial statements. In addition, interest of \$18,826 was contributed to replacement 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 Association may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As of December 31, 2005, the Association had designated \$764,403 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 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 2005, the income tax expense was calculated using the corporate method.

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of December 31, 2005, the Association maintained its funds in the following manner:

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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>
First National				
Bank of Arizona	Checking	\$ 43,462	\$ -	\$ 43,462
BB&T	Money Market	83,301		83,301
Chevy Chase	Money Market	32,382		32,382
Principal	Certificate of Deposit		69,883	69,883
Capital One	Certificates of Deposit (2)		122,642	122,642
New South Federal				
Savings	Certificate of Deposit		60,246	60,246
Key	Certificate of Deposit		67,831	67,831
M&T	Certificate of Deposit		63,273	63,273
Independence	Certificate of Deposit		91,242	91,242
PNC National	Certificate of Deposit		75,976	75,976
Eagle	Certificate of Deposit		87,889	87,889
United	Certificate of Deposit		90,000	90,000
	Totals	<u>\$ 159,145</u>	<u>\$ 728,982</u>	<u>\$ 888,127</u>

The Association maintains fund balances at various banks. Account balances at banks are insured by the Federal Deposit Insurance Company (FDIC) for up to \$100,000. Amounts in excess of insured limits were approximately \$22,642 December 31, 2005.

NOTE 6 - FIXED ASSETS-NET:

Land, Condominium Unit, Furniture and Equipment are being depreciated over an estimated useful life of five to thirty years using the straight-line method. The depreciation expense for 2005 was \$2,179.

Condominium Unit	\$ 47,482
Land	8,006
Furniture	16,880
Equipment	2,981
Less: Accumulated Depreciation	<u>(65,555)</u>
Fixed Assets - Net	<u>\$ 9,794</u>

Fully depreciated assets in the amount of \$24,321 were written off during 2005.

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NOTE 7 - RELATED PARTY:

The Association pays an employee for general repairs and maintenance services. During 2005, the Association paid the employee \$2,639 for these services. No amounts were due for these additional services as of December 31, 2005.

In addition, the Association paid a company owned by an employee of the Association \$590 for repair services.

NOTE 8 - SUBSEQUENT EVENTS:

The Association has budgeted for the following replacement reserve repairs during 2006:

HVAC Improvements	\$ 20,000
Boiler	7,500
Corridor Air Handler	7,500
Riser Replacement - 04 Tier	85,000
Gate Valve Replacement	2,500
Make Up Air Handler Unit	10,000
Pumps – Partial Replacement	15,000
Garage Air Handling Unit	15,000
Hot Water Reset Switch	1,000
Elevator Mechanical Room - A/C	14,000
Cooling Tower Motor	6,650
Shoulder Season Heat/AC Changeover	25,000
Garage Hot Water Coil Controls	2,000
Laundry, Trash, Electric Room Ventilation	4,000
Chiller Controls for Pumps & Cooling Tower	5,650
Reserve Study Update	3,900
Electrical Wiring Study	30,100
Fire Alarm System Study	2,000