

THE LAUREN, A CONDOMINIUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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 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. 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 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 was computed on a straight-line basis over the estimated useful lives of the assets. The assets were fully depreciated in 2007.

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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 Reserve Advisors, Inc. during 2011. The table included in the supplementary information on Future Major Repairs and Replacement is based on this study.

The study recommends a contribution of \$169,000 from assessments and \$13,899 from interest for 2013. During 2013, the Association budgeted to contribute \$324,500 to replacement reserves. Of this amount \$155,500 is for HVAC repairs. In addition, the Association elected to contribute interest income of \$27,980.

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, 2013 and 2012, the Association had designated \$1,696,369 and \$1,600,962, respectively, for replacement reserves. As of December 31, 2013, 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 2013 and 2012, the income taxes were calculated using the corporate method.

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NOTE 4 - INCOME TAXES: (CONTINUED)

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended December 31, 2013 and 2012, the Association did incur penalties and interest related to income taxes of \$23 and \$0, respectively. The Association's federal and state tax returns for the past three years remain subject to examination by the Internal Revenue Service and the District of Columbia.

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of December 31, 2013, 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>
Union Bank	Checking	\$ 65,156	\$ -	\$ 65,156
Union Bank	Checking	40,017		40,017
Morgan Stanley	Money Market	28,586		28,586
Morgan Stanley	Money Market	57,900		57,900
Morgan Stanley				
(Various Institutions)	Certificates of Deposit (36)		1,619,000	1,619,000
	Totals	<u>\$ 191,659</u>	<u>\$ 1,619,000</u>	<u>\$ 1,810,659</u>

NOTE 6 - FIXED ASSETS - NET:

The Association owns a condominium unit which was capitalized at cost and was being depreciated over an estimated useful life of thirty years using the straight-line method.

Condominium Unit	\$ 47,482
Land	8,006
Less: Accumulated Depreciation	(47,482)
Fixed Assets - Net	<u>\$ 8,006</u>

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NOTE 7 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 4, 2014, the date the financial statements were available to be issued.