

LAKE BARCROFT ASSOCIATION, INC.
CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2007

LAKE BARCROFT ASSOCIATION, INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

CONTENTS

	<u>Page</u>
<u>Independent Auditors' Report</u> _____	<u>1</u>
<u>Financial Statements</u>	
Consolidated Statement of Financial Position _____	<u>2</u>
Consolidated Statement of Activities _____	<u>3</u>
Consolidated Statement of Cash Flows _____	<u>4</u>
Notes to Consolidated Financial Statements _____	<u>5-7</u>
Supplementary Information on Future Major Repairs & Replacements _____	<u>8</u>



CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors
Lake Barcroft Association, Inc.
Falls Church, Virginia

We have audited the accompanying consolidated statement of financial position of Lake Barcroft Association, Inc. as of December 31, 2007, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the management of Lake Barcroft Association, Inc. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Improvements to and replacements of property and equipment have been charged to expense in the accompanying financial statements. In our opinion, all capital expenditures should be capitalized and depreciated over their estimated useful lives to conform with U.S. generally accepted accounting principles. The effects on the financial statements of the preceding practices are not reasonably determinable.

In our opinion, except for the effects of the matters discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lake Barcroft Association, Inc. as of December 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The supplementary information on future major repairs and replacements on page 8 is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Jones & McIntyre, PLLC

October 30, 2008

LAKE BARCROFT ASSOCIATION, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2007

ASSETS

CURRENT ASSETS

Cash (Note 1)	\$	76,158
Certificates of deposit		60,848
Prepaid expenses		24,312
Total Current Assets	\$	<u>161,318</u>

PROPERTY & EQUIPMENT

Less, accumulated depreciation	\$	257,830
		<u>(257,830)</u>
	\$	-

OTHER ASSETS

Investments (Note 2)	\$	<u>354,858</u>
----------------------	----	----------------

TOTAL ASSETS

\$ 516,176

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Deferred revenue	\$	11,475
Total Current Liabilities	\$	<u>11,475</u>

UNRESTRICTED NET ASSETS

Undesignated	\$	148,746
Designated (Note 7)		355,955
Total Net Assets	\$	<u>504,701</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 516,176

The accompanying notes are an integral part of this statement.

LAKE BARCROFT ASSOCIATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2007

SUPPORT AND REVENUE

Membership fees	\$ 205,195
Covenant fees	72,160
Advertising income	52,790
Investment income	24,546
Boat fees	23,645
Contributions	18,103
Other fees	16,993
Miscellaneous	3,770
Total Support and Revenue	\$ 417,202

EXPENSES

Program Services	
Water safety/beach maintenance	\$ 124,789
Common area maintenance	52,766
Editor/mailling fees	50,095
Insurance/bonds	26,764
RPA garden	18,356
Scholarships	12,000
Community securtiy	10,802
Community events	8,895
Website	3,186
Donations	1,910
Total Program Services	\$ 309,563

General and Administration

Professional services	\$ 52,255
Office	5,941
Workers' compensation	4,559
Insurance - Directors and officers	2,404
Miscellaneous	843
Total General and Administration	\$ 66,002

Total Expenses	\$ 375,565
----------------	------------

CHANGE IN NET ASSETS	\$ 41,637
-----------------------------	------------------

NET ASSETS, BEGINNING OF YEAR	463,064
--------------------------------------	----------------

NET ASSETS, END OF YEAR	\$ 504,701
--------------------------------	-------------------

The accompanying notes are an integral part of this statement.

LAKE BARCROFT ASSOCIATION, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 41,637
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized gain on investments	(2,021)
(Increase) decrease in prepaid expenses	(1,656)
Increase (decrease) in deferred revenue	11,475
Net cash provided by operating activities	<u>\$ 49,435</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of CDs	\$ (2,394)
Purchase of investments - net	(34,734)
Net cash used by investing activities	<u>\$ (37,128)</u>
NET INCREASE IN CASH	\$ 12,307
CASH, BEGINNING OF YEAR	<u>63,851</u>
CASH, END OF YEAR	<u><u>\$ 76,158</u></u>

The accompanying notes are an integral part of this statement.

LAKE BARCROFT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Lake Barcroft Association, Inc. (LBA), formerly known as Barcroft Lake Management Association (BARLAMA), in a non-profit, non-stock corporation, organized on August 26, 1970, as a tax exempt civic and community organization pursuant to Internal Revenue Code Section 501(c)(4). In 1992, BARLAMA merged with Lake Barcroft Community Association (LABARCA); and the surviving corporation, BARLAMA, changed its name to Lake Barcroft Association (a non-profit organization).

LBA is a membership organization that employs seasonal staff and contractors to assist with recreation management and common grounds maintenance. LBA is controlled by the residents of the Lake Barcroft community.

LBA is the sole owner of Barcroft Beach, Inc. (a C corporation) which in turn owns the lake, dam, the beaches and some related parcels of land. Barcroft Beach, Inc. prints a directory and community newsletter in which advertising is sold.

Lake Barcroft Foundation (LBF) is a 501(c)(3) organization incorporated in the Commonwealth of Virginia. LBF incorporated and commenced operations in 1999. The mission of the LBF is to monitor the Thurgood Marshall Scholarship Program. The Thurgood Marshall Scholarship Program was established to honor a former distinguished Lake Barcroft resident, U.S. Supreme Court Justice Thurgood Marshall. The scholarship program includes college scholarships granted to graduating seniors at J.E.B. Stuart High School in a competitive process along with the opportunity to participate in a mentoring partnership.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of LBA and its subsidiaries, all of which are wholly-owned. All significant intercompany transactions and balances have been eliminated.

Financial Statement Presentation

LBA and LBF report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There are currently no temporarily or permanently restricted net assets.

Cash

The organization considered all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Money market accounts purchased as a part of investment accounts are treated as investments rather than cash equivalents.

LAKE BARCROFT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2007

Note 1. **Organization and Summary of Significant Accounting Policies** (Concluded)

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Income Taxes

LBA and LBF are exempt from federal and state income taxes based upon qualification as a Section 501(c)(4) and 501(c)(3) organization, respectively. In addition, LBF has been determined not to be a private foundation.

Investments

Investments are composed of mutual funds investing in debt and equity securities and are recorded at fair value.

Functional Expenses

LBA allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that 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.

Note 2. **Investments**

Investments are comprised of the following:

Schwab S&P 500	\$	38,339
Columbia Fixed Income Securities Fund		13,912
Vanguard Intermediate Term Bond Index Fund		15,336
PepsiCo, Inc. common stock		2,656
Merrill Lynch Government Fund		284,615
Total	\$	<u>354,858</u>

LAKE BARCROFT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)

DECEMBER 31, 2007

Note 3. **Related Parties**

The Lake Barcroft Association Watershed Improvement District (WID) is a Virginia government agency. The primary responsibilities of the WID are the conservation of Lake Barcroft and its inherent environmental qualities, as well as, the operation and maintenance of the Lake Barcroft dam. The WID collects taxes from LBA homeowners to carry out their responsibilities. While the WID is not a member of LBA, the WID does send a representative to the LBA monthly board meetings with updates and information.

Note 4. **Concentration of Credit Risk**

Financial instruments which potentially subject the organization to concentration of credit risk consist principally of temporary cash investments. At times, such investments may be in excess of Federal Deposit Insurance.

Note 5. **Environmental Liabilities**

Under various Federal and state environmental laws and regulations, a current or previous owner or operator of real estate may be required to investigate and clean up certain hazardous or toxic substances or petroleum product releases at the property, and may be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by such parties in connection with contamination. The owner or operator of a site may be liable under common law to third parties for damages and injuries resulting from environmental contamination emanating from the site. There can be no assurance that LBA or any of its affiliates, or any assets owned or controlled by LBA or any of its affiliates currently are in compliance with all such laws and regulations, or that LBA or its affiliates will not become subject to liabilities that arise in whole or in part out of any such laws, rules, or regulations. Management is not currently aware of any environmental liabilities which are expected to have a material adverse effect on LBA's operations or financial condition.

Note 6. **Net Operating Loss Carryforwards**

Barcroft Beach, Inc. has available at December 31, 2007 \$12,941 of unused operating loss carryforwards that may be applied against future taxable income and that expire in various years from 2011 to 2021.

Note 7. **Designated Net Assets: Reserve Funds**

The reserve funds provide for the major repair and replacement of the common elements of LBA. Funds are being accumulated in the reserve funds based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures and the variations may be material. Therefore, amounts accumulated in the reserve funds may not be adequate to meet all future needs for repairs and maintenance.

LAKE BARCROFT ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS

DECEMBER 31, 2007
(Unaudited)

At the direction of the Lake Barcroft Association, Inc. Board of Directors, a replacement reserve study was conducted in December 2007 by a committee chaired by Gerald Mendenhall, Treasurer. The purpose of the study was to update the estimate of the annual replacement cost of major common property. A summary of the survey is presented below. The estimated replacement cost is subject to change as items are added to or removed from service by LBA. The cost estimates are constantly refined which could also result in changes.

ASSET CATEGORY	ESTIMATED COSTS	LIFE (IN YEARS)	REPLACEMENT COST PER YEAR
Boats & Related	\$14,500	5	\$2,900
Docks	13,000	20	650
Equipment	60,685	10	6,069
Land Improvements	242,590	20	12,130
Signs	68,475	10	6,848
Toilets, Portable	975	5	195
Trailer	3,000	3	1,000
Total	\$403,225		\$29,792