

**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.**

**MANAGEMENT LETTER**

**DECEMBER 31, 2007**



SCHREINER, LEGGE  
& COMPANY

A Professional Accounting & Consulting Corporation

June 4, 2008

Board of Directors  
Norbeck Hills Homeowners Association, Inc.  
c/o The Management Group Associates, Inc.  
20440 Century Boulevard, Suite 100  
Germantown, MD 20874

Dear Board Members:

We have completed our audit of the financial statements of Norbeck Hills Homeowners Association, Inc., as of December 31, 2007, and have issued an unqualified report thereon. As a result of our audit, we feel we should bring the following items to the attention of the Board of Directors.

**AUDITING STANDARDS**

An audit performed in accordance with U.S. generally accepted auditing standards certainly addresses many matters of interest to your Board, such as internal control, adherence to operating practices and whether the financial statements are free of material misstatement. It is important for the Board to understand that an audit conducted in accordance with U.S. generally accepted auditing standards is designed to obtain reasonable, rather than absolute, assurance about the financial statements being fairly presented in accordance with U.S. generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions there is a risk that material errors, irregularities, or illegal acts including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control of Norbeck Hills Homeowners Association, Inc. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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June 4, 2008

**SIGNIFICANT ACCOUNTING POLICIES**


Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Norbeck Hills Homeowners Association, Inc. are described in Note 2 to the financial statements. No new accounting policies were adopted. We noted no transactions entered into by the Association during the period of the audit.

June 4, 2008

**DISTRIBUTION**

This report is intended solely for the information and use of the Board of Directors and others within the organization of Norbeck Hills Homeowners Association, Inc.

We thank the Board of Directors of Norbeck Hills Homeowners Association, Inc. for allowing us to be of service to you. If we can be of further assistance, or if there are any questions concerning this report, please let us know.



SCHREINER, LEGGE & COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS

**Norbeck Hills Homeowners Association, In  
Trial Balance Worksheet**

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Basis: Adjusted

Account	T	Description	Dec 31, 2006	Dec 31, 2007 Unadjusted	Adjustments	Dec 31, 2007 Adjusted
1000	A	RBC Centura Bank 0629	0.00	107,537.91		107,537.91
1005	A	RBC Snow Removal Account	0.00	10,271.24		10,271.24
1010	A	Operating - Checking: Bank of	50,675.69	0.00		0.00
1060	A	Operating - Savings: Chevy Ch	78.89	0.00		0.00
1070	A	Reserve - Chevy Chase 2845030	38,803.16	43,344.66		43,344.66
1210	A	Reserve - Dean Witter (CD's)	40,000.00	40,000.00		40,000.00
1211	A	Reserve - Dean Witter (Liquid	44,562.35	52,034.31		52,034.31
1310	A	Assessments Receivable	11,882.88	23,119.47		23,119.47
1315	A	Allowance for Bad Debts	(5,363.52)	(7,289.64)		(7,289.64)
1320	A	Other Accounts Receivable	(25.00)	(1,000.50)		0.00
		1    Reclass negative asset			1,000.50	
1515	A	Due from Operating Fund	24,709.72	0.00		0.00
1610	A	Prepaid Insurance	1,446.48	0.00		0.00
1612	A	Prepaid Taxes	720.00	0.00		0.00
1613	A	Prepaid Expense	0.00	0.00		501.00
		2    Record prepaid portion of 2007 Montgomery co Registration			501.00	
2550	A	Refundable Deposits	495.38	0.00		0.00
3010	L	Accounts Payable	(20,170.32)	(24,096.67)		(25,671.67)
		5    Record 2007 audit fee			(1,575.00)	
3012	L	Income Tax Payable	0.00	0.00		(2,973.00)
		4    Record computed income tax expense and liability			(2,973.00)	
3015	L	Due to Reserve Fund	(24,709.72)	0.00		0.00
3030	L	Accounts Payable - Reserves	0.00	(7,035.00)		(7,035.00)
3310	L	Prepaid Owner Assessments	(18,281.34)	(16,083.76)		(16,083.76)
3315	L	Other payables	0.00	0.00		(1,000.50)
		1    Reclass negative asset			(1,000.50)	
5110	L	Prior Years' Reserve Equity	(147,515.40)	(122,282.46)		(127,783.46)
		6    Close current year income to equity accounts			(5,501.00)	
5120	L	Capital Improvement Reserve	(560.00)	(560.00)		(560.00)
5510	L	Prior Years' Excess (Deficit)	3,250.75	(53,160.02)		(88,411.56)
		6    Close current year income to equity accounts			(35,251.54)	
6310	R	Assessment Income - Operating	0.00	(363,530.64)		(363,530.64)
6315	R	Resale Package Income	0.00	(1,525.00)		(1,525.00)
6340	R	Late Fee Income	0.00	(3,850.00)		(3,850.00)
6350	R	Legal Fees Reimbursement	0.00	(3,915.59)		(3,915.59)
6360	R	Certified/Lien/NSF Income	0.00	(5,915.75)		(5,915.75)
6380	R	Misc H/O Income	0.00	(894.60)		(894.60)
6420	R	Pool Membership Income	0.00	(37,959.00)		(37,959.00)
6910	R	Interest Income - Operating	0.00	(243.74)		(243.74)
6999	R	Reserve Contribution	0.00	71,700.00		71,700.00
7100	E	Management Fees	0.00	50,362.32		50,362.32
7140	E	Audit Fees	0.00	0.00		1,575.00
		5    Record 2007 audit fee			1,575.00	
7160	E	Legal Fees	0.00	5,764.84		5,764.84
7250	E	Bank Charges	0.00	427.98		427.98
7260	E	Postage & Mail	0.00	4,823.03		4,823.03
7280	E	Insurance	0.00	6,048.07		6,048.07
7390	E	Coupon Printing	0.00	1,090.22		1,090.22
7400	E	Printing & Reproduction	0.00	4,096.10		4,096.10
7414	E	Newsletter	0.00	558.72		558.72
7440	E	Income Taxes	0.00	1,463.14		3,333.00
		3    Reclass Mont Co expense & 2006 penalty			(1,091.45)	
		3    Reclass Mont Co expense & 2006 penalty			(11.69)	
		4    Record computed income tax expense and liability			2,973.00	
7550	E	Street Light Electricity	0.00	6,344.19		6,344.19
7870	E	Resale Package Reimbursement	0.00	750.00		750.00
7880	E	Misc. Homeowner Admin. Fees	0.00	6,445.00		6,445.00
7890	E	Misc. General & Admin. Expens	0.00	1,819.13		1,830.82
		3    Reclass Mont Co expense & 2006 penalty			11.69	
7910	E	Commission on Common Ownershi	0.00	1,504.50		2,094.95

**Norbeck Hills Homeowners Association, In  
Trial Balance Worksheet**

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Basis: Adjusted

Account	T	Description	Dec 31, 2006	Dec 31, 2007 Unadjusted	Adjustments	Dec 31, 2007 Adjusted
	2	Record prepaid portion of 2007 Montgomery co Registration			(501.00)	
	3	Reclass Mont Co expense & 2006 penalty			1,091.45	
8200	E	Pool Operation & Management	0.00	47,448.00		47,448.00
8210	E	Pool Repairs	0.00	4,966.00		4,966.00

Prepared by \_\_\_\_\_

**Norbeck Hills Homeowners Association, In**  
**Adjusting Journal Entries**

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Reviewed by \_\_\_\_\_

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Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
1	Adjusting	12/31/07					
		1320	Other Accounts Receivable	1,000.50			
		3315	Other payables		1,000.50		
			Reclass negative asset			0.00	
2	Adjusting	12/31/07					
		1613	Prepaid Expense	501.00			
		7910	Commission on Common Owners		501.00		
			Record prepaid portion of 2007 Montgomery co Registration			501.00	
3	Adjusting	12/31/07					
		7440	Income Taxes		1,091.45		
		7910	Commission on Common Owners	1,091.45			
		7440	Income Taxes		11.69		
		7890	Misc. General & Admin. Expens	11.69			
			Reclass Mont Co expense & 2006 penalty			0.00	
4	Adjusting	12/31/07					
		7440	Income Taxes	2,973.00			
		3012	Income Tax Payable		2,973.00		
			Record computed income tax expense and liability			(2,973.00)	
5	Adjusting	12/31/07					
		7140	Audit Fees	1,575.00			
		3010	Accounts Payable		1,575.00		
			Record 2007 audit fee			(1,575.00)	

Prepared by \_\_\_\_\_

**Norbeck Hills Homeowners Association, In  
Adjusting Journal Entries**

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Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
6	Adjusting	12/31/07					
		9980	Net Income (Loss)	40,752.54			
		5510	Prior Years' Excess (Deficit)		35,251.54		
		5110	Prior Years' Reserve Equity		5,501.00		
			Close current year income to equity accounts			0.00	
		TOTAL		<u>47,905.18</u>	<u>47,905.18</u>	<u>(4,047.00)</u>	



**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.**

**INDEPENDENT AUDITOR'S REPORT**

**DECEMBER 31, 2007**



**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.**  
**STATEMENT OF FINANCIAL CONDITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**WITH SUMMARIZED COMPARATIVE TOTALS FOR 2006**

ASSETS

	Operating Fund	Capital Replacement Reserves	2007 Totals	2006 Totals
<u>Current Assets</u>				
Cash Equivalents - Checking	\$ 117,809	\$ -0-	\$ 117,809	\$ 65,100
Cash Equivalents - Savings	-0-	95,379	95,379	82,842
Investments	-0-	40,000	40,000	40,000
Assessments Receivable Net of Allowance for Doubtful Accounts of \$7,290 (2007) and \$7,290 (2006)	15,830	-0-	15,830	6,377
Prepaid Insurance	-0-	-0-	-0-	1,454
Other Assets	501	-0-	501	650
<u>TOTAL ASSETS</u>	<u>\$ 134,140</u>	<u>\$ 135,379</u>	<u>\$ 269,519</u>	<u>\$ 196,423</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts Payable and Accrued Expense	\$ 25,67	\$ 7,036	\$ 32,706	\$ 9,953
Other Payables	1,00	-0-	1,000	-0-
Prepaid Assessments	16,08	-0-	16,084	10,056
Income Taxes Payable	2,97	-0-	2,974	412
<u>Total Liabilities</u>	<u>45,72</u>	<u>7,036</u>	<u>52,764</u>	<u>20,421</u>

Fund Balance

Unrestricted Retained Earnings	88,41	-0-	88,412	53,160
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**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.**  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**WITH SUMMARIZED COMPARATIVE TOTALS FOR 2006**

	Operating Fund	Capital Replacement Reserves	2007 Totals	2006 Totals
<u>Revenue</u>				
Owners' Assessments	\$ 291,831	\$ 71,700	\$ 363,531	\$ 363,531
Investment Income	244	4,166	4,410	4,041
Pool Income	37,959	-0-	37,959	28,579
Late Fee and Miscellaneous Income	14,576	-0-	14,576	10,916
Resale Package Income	<u>1,525</u>	<u>-0-</u>	<u>1,525</u>	<u>3,265</u>
 Total Revenue	 <u>346,135</u>	 <u>75,866</u>	 <u>422,001</u>	 <u>410,332</u>
<u>Expenses</u>				
Management Fees	50,362	-0-	50,362	48,917
Professional Fees	7,340	-0-	7,340	7,338
Postage	4,823	-0-	4,823	4,370
Insurance	6,048	-0-	6,048	6,110
Bad Debt Expense (Recovery)	-0-	-0-	-0-	5,867
Printing	5,186	-0-	5,186	6,039
Utilities	6,344	-0-	6,344	7,858
Office Expenses	12,108	-0-	12,108	10,114
Pool Operations and Expenses	71,331	-0-	71,331	65,546
Landscaping and Site Maintenance	72,701	-0-	72,701	75,610
Replacement Expenditures	-0-	70,365	70,365	105,184
Trash Removal	22,853	-0-	22,853	22,853
Snow Removal	41,035	-0-	41,035	12,974
Federal and State Income Taxes	3,333	-0-	3,333	572
Security Services	<u>7,419</u>	<u>-0-</u>	<u>7,419</u>	<u>3,675</u>
 Total Expenses	 <u>310,883</u>	 <u>70,365</u>	 <u>381,248</u>	 <u>383,027</u>
 Excess of Revenue Over Expenses	 35,252	 5,501	 40,753	 27,305
 Fund Balance - Beginning of Year	 <u>53,160</u>	 <u>122,842</u>	 <u>176,002</u>	 <u>148,697</u>
 Fund Balance - End of Year	 <u>\$ 88,412</u>	 <u>\$ 128,343</u>	 <u>\$ 216,755</u>	 <u>\$ 176,002</u>

The accompanying notes are an integral  
part of these financial statements



**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**WITH SUMMARIZED COMPARATIVE TOTALS FOR 2006**

	<u>Operating Fund</u>	<u>Capital Replacement Reserves</u>	<u>2007 Totals</u>	<u>2006 Totals</u>
<u>Reconciliation of Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities</u>				
Excess of Revenue Over Expenses	\$ 35,252	\$ 5,501	\$ 40,753	\$ 27,305
Adjustments to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:				
Provision for Bad Debts on Accounts Receivable	-0-	-0-	-0-	5,867
Decrease (Increase) in:				
Accounts Receivable	(9,453)	-0-	(9,453)	(1,784)
Other Assets	1,603	-0-	1,603	464
Increase (Decrease) in:				
Accounts Payable	15,717	7,036	22,753	(10,217)
Other Liabilities	9,590	-0-	9,590	(7,813)
Total Adjustments	<u>17,457</u>	<u>7,036</u>	<u>24,493</u>	<u>(13,483)</u>
Net Cash Provided by Operating Activities	<u>52,709</u>	<u>12,537</u>	<u>65,246</u>	<u>13,822</u>
Net Increase in Cash and Cash Equivalents	52,709	12,537	65,246	13,822
<hr/>				
Cash and Cash Equivalents - Beginning of Year	<u>65,100</u>	<u>82,842</u>	<u>147,942</u>	<u>134,120</u>
Cash and Cash Equivalents - End of Year	<u>\$ 117,809</u>	<u>\$ 95,379</u>	<u>\$ 213,188</u>	<u>\$ 147,942</u>
<u>Supplementary Disclosures of Cash Flow Information:</u>				
Cash Paid for Income Taxes			<u>\$ 772</u>	<u>\$ -0-</u>

The accompanying notes are an integral part of these financial statements

**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

NOTE 1 - FORMATION AND PURPOSE

The Norbeck Hills Homeowners Association, Inc. (the Association) was incorporated in Maryland in 1980. The purpose of the Association is to provide trash and snow removal, lawn maintenance, insurance and electricity for outside lighting of common areas and maintenance of the community facilities for the 334 townhouses and 112 single family homes of the Association located in Montgomery County, Maryland. The Association's principal source of income is from member assessments. It also receives income from fees for late payments and interest earned on investments.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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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 in accordance with U.S. generally accepted accounting standards.

Fund Accounting

The Association uses the principles of fund accounting which require that funds, such as operating funds, and restricted funds designated for future major repairs, improvements 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.

Use of 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.

Interest Earned

Interest income and investment earnings are retained in the fund where the investments are designated.

Owners' Assessments

Assessments are recorded as revenue when billed; unit owners are assessed monthly. An allowance for bad debts totaling \$7,200 has been established as of

December 31, 2007, as the Association currently anticipates a loss on the recovery of outstanding assessments. The Association's Board of Directors has the ability, with proper approval by the owners, to pass special assessments when and if the need arises.

Statement of Cash Flows

The Association considers all demand cash balances, the Dean Witter Liquid Asset Fund, and all highly liquid debt instruments purchased with no fixed maturity to be cash equivalents for purposes of the statement of cash flows.

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 2007 for federal and state taxes was \$3,125.

The Board of Directors approved budget funding of \$71,700 for 2007. Funds are being accumulated in the replacement fund based on estimated replacement costs for repairs and replacements of common property components. Actual expenditures and investment income may vary from these 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. Balances owing between funds are reflected as interfund receivables and payables.

The Association incurred replacement reserve expenses of \$70,365 as follows:

Tennis Court Repair	\$ 27,170
Asphalt Repair	7,035
Pool Repair	34,777
Bank Charges	90
Street Lights	1,293
TOTAL	<u>\$ 70,365</u>

NOTE 5 - OWNERS' ASSESSMENTS

Monthly assessments to owners were \$74.25 for townhouses and \$49.06 for single family homes in 2007. Of this amount \$71,700 was allocated to capital reserves.

The annual budget and owners' assessments are determined by the Board of Directors and are approved by the owners. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

NOTE 6 - INVESTMENTS

The Association holds investments in negotiable certificates of deposit. Average





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INDEPENDENT AUDITOR'S REPORT

June 27, 2008

Board of Directors  
Norbeck Hills Homeowners Association, Inc.  
Olney, Maryland

The supplementary information on future major repairs and replacement on page 9 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.

SCHREINER, LEGGE & COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS

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**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.**  
**SUPPLEMENTARY INFORMATION ON**  
**FUTURE MAJOR REPAIRS AND REPLACEMENTS**  
**DECEMBER 31, 2007**  
**(UNAUDITED)**

Miller Dodson Associates conducted a study in July 2004 to estimate the remaining useful lives and replacement costs of the components of common property. The Board of Directors designated \$71,700 as a contribution to replacement reserves during 2007. The Association uses the component method of funding for replacement reserves.

The following is based on the study and presents significant information about the components of common property.

<u>Interval Replacement</u>	Estimated Remaining Useful Lives (Years)	Estimated Replacement Costs
Concrete Sidewalk	3	\$ 66,285
Concrete Pool Deck	3	25,201
Concrete Curb/Gutters	Study Year	77,314
Storm Water Management System	5	46,500
 <u>Normal Replacement</u>		
Site Improvements	2-23	125,918
Asphalt - Phase 1	0-5	118,262
Asphalt - Phase 2	1-6	115,002
Asphalt - Phase 3	2-7	88,945
Recreational Facilities	0-25	339,977
Pool Building and Site	1-32	<u>147,742</u>
<b>TOTAL</b>		<b><u>\$ 1,151,146</u></b>
Current Unallocated Replacement Fund Balance as of December 31, 2007		<b><u>\$ 128,343</u></b>

