

**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2008
(WITH SUMMARIZED FINANCIAL INFORMATION
DECEMBER 31, 2007)**

**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
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YEAR ENDED DECEMBER 31, 2008**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Norbeck Hills Homeowners Association, Inc. (the "Association") as of December 31, 2008, and the related statements of revenues, expenses and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The Association's December 31, 2007 financial statements were audited by Schreiner, Legge & Company, who merged with LarsonAllen LLP as of July 1, 2008 and whose report dated June 27, 2008, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Norbeck Hills Homeowners Association, Inc. as of December 31, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

LarsonAllen LLP
LarsonAllen LLP

Arlington, Virginia
October 15, 2009

(1)



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NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2008
(WITH SUMMARIZED FINANCIAL INFORMATION AT DECEMBER 31, 2007)

	Operating Fund	Replacement Fund	Total	
			2008	2007
ASSETS				
Cash and Cash Equivalents	\$ 105,769	\$ 124,745	\$ 230,514	\$ 213,188
Certificate of Deposit	-	-	-	40,000
Assessments Receivable	8,416	-	8,416	15,830
Prepaid Expenses	2,944	-	2,944	501
	<u>2,944</u>	<u>-</u>	<u>2,944</u>	<u>501</u>
 Total Assets	 <u>\$ 117,129</u>	 <u>\$ 124,745</u>	 <u>\$ 241,874</u>	 <u>\$ 269,519</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 11,687	\$ -	\$ 11,687	\$ 36,680
Assessments Received in Advance	18,460	-	18,460	16,084
	<u>18,460</u>	<u>-</u>	<u>18,460</u>	<u>16,084</u>
 Total Liabilities	 30,147	 -	 30,147	 52,764
 FUND BALANCES	 86,982	 124,745	 211,727	 216,755
	<u>86,982</u>	<u>124,745</u>	<u>211,727</u>	<u>216,755</u>
 Total Liabilities and Fund Balances	 <u>\$ 117,129</u>	 <u>\$ 124,745</u>	 <u>\$ 241,874</u>	 <u>\$ 269,519</u>

See accompanying Notes to Financial Statements.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2008
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2007)

	Operating Fund	Replacement Fund	Total	
			2008	2007
REVENUES				
Maintenance Assessments	\$ 291,831	\$ 71,700	\$ 363,531	\$ 363,531
Pool Revenue	38,057	-	38,057	37,959
Interest Income	874	1,957	2,831	4,410
Other Income	25,606	-	25,606	16,101
Total Revenues	356,368	73,657	430,025	422,001
EXPENSES				
Administrative	19,282	-	19,282	20,022
Commission on Common Ownership	1,505	-	1,505	2,095
Bad Debts	19,185	-	19,185	-
Insurance	6,611	-	6,611	6,048
Landscaping	48,575	-	48,575	49,202
Management Fees	54,255	-	54,255	50,362
Removal Services	37,990	-	37,990	63,888
Taxes	4,940	-	4,940	3,333
Professional Fees	11,161	-	11,161	7,340
Pool Expense	76,171	-	76,171	71,331
Repairs and Maintenance	35,077	77,255	112,332	93,865
Security	33,628	-	33,628	7,419
Utilities	9,418	-	9,418	6,343
Total Expenses	357,798	77,255	435,053	381,248
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	(1,430)	(3,598)	(5,028)	40,753
Fund Balances - Beginning of Year	88,412	128,343	216,755	176,002
FUND BALANCES - END OF YEAR	\$ 86,982	\$ 124,745	\$ 211,727	\$ 216,755

See accompanying Notes to Financial Statements.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2008
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2007)

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	
			2008	2007
RECONCILIATION OF EXCESS (DEFICIT) OF REVENUES OVER EXPENSES TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Excess (Deficit) of Revenues Over Expenses	\$ (1,430)	\$ (3,598)	\$ (5,028)	\$ 40,753
Adjustments to Reconcile Excess (Deficit) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:				
Bad Debt	19,185	-	19,185	-
(Increase) Decrease In:				
Assessments Receivable	(11,771)	-	(11,771)	(9,453)
Prepaid Expenses	(2,443)	-	(2,443)	1,603
Increase (Decrease) in:				
Accounts Payable and Accrued Expenses	(17,958)	(7,036)	(24,994)	26,315
Assessments Received in Advance	2,376	-	2,376	6,028
Net Cash Provided (Used) by Operating Activities	<u>\$ (12,041)</u>	<u>\$ (10,634)</u>	<u>\$ (22,675)</u>	<u>\$ 65,246</u>

See accompanying Notes to Financial Statements.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Norbeck Hills Homeowners Association, Inc. (the "Association") is a nonprofit organization incorporated in Maryland in 1980. The primary purpose of the Association is to manage the operations and preserve and maintain the common elements of the community facilities for the 334 townhouses and 112 single family homes of the Association located in Montgomery County, Maryland.

Fund Accounting

The financial statements of the Association are prepared on the accrual basis of

accounting, which recognizes revenue when earned, regardless of when received, and expenses when incurred, regardless of when paid.

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the financial statements have been prepared using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements.

Liquidity

Assets are presented in the accompanying balance sheet according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash is defined as demand deposits and certificates of deposit with original maturities of three months or less. The Association maintains bank accounts with balances which, at times, may exceed federally insured

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Commonly Owned Assets

Real common property acquired by the Association is not capitalized because its use and disposition by the Association's board of directors is restricted. Common property not capitalized includes walkways, roadways and parking areas, and picnic and playground equipment.

The Association's accounting policy is to capitalize the cost of personal property in excess of \$1,000 with an estimated economic useful life in excess of one year and to depreciate such property over a period of five to forty years using the straight-line method. The Association had no such assets at December 31, 2008.

Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. The financial statements have been prepared under the assumption the Association will elect to be taxed as a homeowners' association. As a homeowners' association, nonexempt function income, such as interest earnings, is taxed at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable. The Association incurred \$4,940 in income taxes for the year ended December 31, 2008.

The Association has elected to defer application of FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes*. The Company follows Financial Accounting Standard No. 5 *Accounting for Contingencies* for evaluating uncertain tax positions.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Fair Value of Financial Instruments

On January 1, 2008, the Association was required to adopt Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. The Association currently does not measure any of its assets or liabilities at fair value and is not required under generally accepted accounting principles to disclose the fair value of its financial instruments.

The Association also was required to adopt Statement of Financial Accounting Standard No. 159, *The Fair Value Option for Financial Assets and Liabilities* (SFAS 159) on January 1, 2008. SFAS 159 allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 4 FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require the Association to accumulate funds for future major repairs and replacements unless the members determine by majority vote to fund no reserves or less than adequate reserves. The Association's replacement fund is utilized to accumulate funds for capital expenditures and deferred maintenance by an allocation of the maintenance fee assessment charged to each unit owner specifically designated for the fund in the annual budget. Deductions from the fund are recorded as costs as incurred to meet the objective for which the fund was established.

The Association utilizes the cash flow method. This method is a form of calculating reserve requirements whereby contributions to the reserve funds are designed to offset the variable annual expenditures from the reserve fund. This method calculates the future replacement cost for reserve components when they are due for replacement. Funds from the beginning balances are pooled together and a yearly contribution rate is calculated to arrive at a positive cash flow and reserve account balance to adequately fund the future projected expenditures throughout the period. The Association obtained a reserve study from an engineering firm.

The table included in the unaudited supplementary information on future major repairs and replacements is based on the estimates from the most recent reserve study of remaining useful lives and current replacement costs. Because funds are not accumulated by component, useful lives are estimated, and changes in replacement costs, amounts accumulated in the fund may not be adequate to meet all future needs for major repairs and replacements. In addition, the timing and amount of actual expenditures will vary and these variations may be material. When funds are needed for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments, or delay the repair or replacement until funds are available.

In 2008 \$77,255 was expended for certain equipment replacement and maintenance work regarding the Association's pool, fence, and other items. As of December 31, 2008, the Association has accumulated \$124,745 for future majors and replacements.



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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

The supplementary information on future major repairs and replacements on page 11 is not a required part of the basic financial statements of Norbeck Hills Homeowners Association, Inc. but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

LarsonAllen LLP
LarsonAllen LLP

Arlington, Virginia
October 15, 2009

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS (UNAUDITED)
DECEMBER 31, 2008
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

The table below represents estimates obtained by the board of directors from a licensed engineering firm who performed a reserve study on the property in 2004. The table presents significant information about the components of the common areas. Such costs do not take into account the effect of inflation or interest rates between the date of the study and the date that the components will require repair or replacement. A summary of the replacement fund components as of December 31, 2008, is as follows:

<u>Interval Replacement</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>
Concrete Sidewalk	3	\$ 66,285
Concrete Pool Deck	3	25,201
Concrete Curb/Gutters	0	77,314
Storm Water Management System	5	46,500
<u>Interval Replacement</u>		
Site Improvements	1-22	125,918
Asphalt - Phase 1	0-4	118,262
Asphalt - Phase 2	0-5	115,002
Asphalt - Phase 3	1-6	88,945
Recreational Facilities	0-24	339,977
Pool Building and Site	0-31	147,742
		<u>\$ 1,151,146</u>

The pooled balance of the reserve fund as of December 31, 2008 was \$124,745.