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

We have audited the financial statements of Norbeck Hills Homeowners Association, Inc. for the year ended December 31, 2009, and have issued our report thereon dated October 21, 2010. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

1. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.
2. 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.
3. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a client-prepared document, such as an annual report, should be done only with our prior approval and review of the document. Our responsibility for other information in documents containing the entity's financial statements and report does not extend beyond the financial information identified in the report. We do not have an obligation to perform any procedures to corroborate other information contained in such documents.

Planned scope and timing of the audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and initial correspondence of April 7, 2009.

Significant audit findings

Qualitative aspects of accounting practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Norbeck Hills Homeowners Association, Inc. are described in Note 1 to the financial statements. The Association adopted a policy regarding evaluating uncertain tax positions that is disclosed in Note 1 to the financial statements. The application of existing policies was not changed during 2009.



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We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the Association's ability to collect receivables is based on prior experience with the members as well as the ability of the Association to lien the property of the unit owners. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the reserve for future repairs and replacements is based on information obtained by the board of directors. We made limited inquiries regarding the methods used to develop the reserve for future repairs and replacements; however, we did not audit these amounts and provide no assurance that the amounts reported are reasonable in relation to the financial statements taken as a whole.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and uncorrected misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Management did not identify and we did not notify them of any uncorrected financial statement misstatements. The following material misstatements detected as a result of audit procedures were corrected by management: adjustment to increase the current year's tax liability/assets and an adjustment to increase the allowance for bad debt.

Disagreements with management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated October 21, 2010.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Association’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Communications of internal control weaknesses

In planning and performing our audit of the financial statements of Norbeck Hills Homeowners Association, Inc. as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered Norbeck Hills Homeowners Association, Inc.’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Association’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Association’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Association’s financial statements that is more than inconsequential will not be prevented or detected by the Association’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

On the following page, we identified certain significant deficiencies in internal control that we consider to be material weaknesses.

Oversight of the financial reporting system

Management is responsible for establishing and maintaining internal controls in the financial reporting system and for the fair presentation of the financial position, results of activities, cash flows and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles (GAAP). During our audit we noticed the following material weaknesses:

- The internal control system does not reliably and consistently produce adjustments to bring the accounting records into alignment with generally accepted accounting principles.
- The internal control system does not include the preparation of financial statements and the related disclosures in accordance with generally accepted accounting principles.

* * *

This information is intended solely for the use of the board of directors and management of Norbeck Hills Homeowners Association, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Larson Allen LLP
LarsonAllen LLP

Arlington, Virginia
October 21, 2010

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

**YEAR ENDED DECEMBER 31, 2009
(WITH SUMMARIZED FINANCIAL INFORMATION
DECEMBER 31, 2008)**

**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
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YEAR ENDED DECEMBER 31, 2009**

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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, 2009, 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 prior year summarized comparative information has been derived from the Association's December 31, 2008, financial statements and, in our report dated October 15, 2009, we 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, 2009, 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 21, 2010

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NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2009
(WITH SUMMARIZED FINANCIAL INFORMATION AT DECEMBER 31, 2008)

	Operating Fund	Replacement Fund	Total	
			2009	2008
ASSETS				
Cash and Cash Equivalents	\$ 64,953	\$ 149,602	\$ 214,555	\$ 179,792
Certificate of Deposit	52,172	-	52,172	50,723
Assessments Receivable, Net	7,670	-	7,670	8,415
Due From Other Fund	2,850	(2,850)	-	-
Prepaid Expenses	9,394	-	9,394	2,944
Total Assets	\$ 137,039	\$ 146,752	\$ 283,791	\$ 241,874
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 33,468	\$ -	\$ 33,468	\$ 11,687
Assessments Received in Advance	22,215	-	22,215	18,460
Total Liabilities	55,683	-	55,683	30,147
FUND BALANCES	81,356	146,752	228,108	211,727
Total Liabilities and Fund Balances	\$ 137,039	\$ 146,752	\$ 283,791	\$ 241,874

See accompanying Notes to Financial Statements.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2009
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2008)

	Operating Fund	Replacement Fund	Total	
			2009	2008
REVENUES				
Maintenance Assessments	\$ 291,827	\$ 71,704	\$ 363,531	\$ 363,531
Pool Revenue	40,895	-	40,895	38,057
Interest Income	1,104	145	1,249	2,831
Other Income	24,572	-	24,572	25,606
Total Revenues	358,398	71,849	430,247	430,025
EXPENSES				
Administrative	16,524	-	16,524	19,282
Commission on Common Ownership	1,338	-	1,338	1,505
Bad Debts	5,674	-	5,674	19,185
Insurance	3,665	-	3,665	6,611
Landscaping	49,751	-	49,751	48,575
Management Fees	53,429	-	53,429	54,255
Removal Services	65,423	-	65,423	37,990
Taxes	5,891	-	5,891	4,940
Professional Fees	14,899	-	14,899	11,161
Pool Expense	75,709	-	75,709	76,171
Repairs and Maintenance	28,176	49,842	78,018	112,332
Security	35,992	-	35,992	33,628
Utilities	7,552	-	7,552	9,418
Total Expenses	364,023	49,842	413,865	435,053
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	(5,625)	22,007	16,382	(5,028)
Fund Balances - Beginning of Year	86,982	124,745	211,727	216,755
FUND BALANCES - END OF YEAR	\$ 81,356	\$ 146,752	\$ 228,108	\$ 211,727

See accompanying Notes to Financial Statements.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2009
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2008)

	Operating Fund	Replacement Fund	Total	
			2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Member Assessments	\$ 290,653	\$ 71,700	\$ 362,353	\$ 354,137
Cash Received from Pool Revenue	40,895	-	40,895	38,057
Cash Received from Interest Income	1,104	144	1,248	2,831
Cash Received from Other Income	24,572	-	24,572	25,606
Cash Paid to Suppliers	(341,175)	(49,837)	(391,012)	(438,365)
Cash Paid for Taxes	(1,843)	-	(1,843)	(4,940)
Net Cash Provided (Used) by Operating Activities	14,206	22,007	36,213	(22,674)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Certificates of Deposit	-	-	-	-
Proceeds from Certificates of Deposit	-	-	-	40,000
Purchase of Securities	(52,172)	-	(52,172)	(50,722)
Proceeds from Sales of Securities	50,723	-	50,723	-
Purchases of Property	-	-	-	-
Proceeds from Sale of Property	-	-	-	-
Net Cash Provided (Used) by Investing Activities	(1,450)	-	(1,450)	(10,722)
CASH FLOWS FROM FINANCING ACTIVITIES				
Change in Interfund Borrowings	(2,850)	2,850	-	-
Net Cash Provided (Used) by Financing Activities	(2,850)	2,850	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	9,906	24,857	34,763	(33,396)
Cash and Cash Equivalents - Beginning of Year	55,047	124,745	179,792	213,188
CASH AND CASH EQUIVALENTS - END OF YEAR				
	<u>\$ 64,953</u>	<u>\$ 149,602</u>	<u>\$ 214,555</u>	<u>\$ 179,792</u>

See accompanying Notes to Financial Statements.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2009
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2008)

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	
			2009	2008
RECONCILIATION OF EXCESS (DEFICIT) OF REVENUES OVER EXPENSES TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Excess (Deficit) of Revenues Over Expenses	\$ (5,625)	\$ 22,007	\$ 16,382	\$ (5,028)
Adjustments to Reconcile Excess (Deficit) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:				
Bad Debt	5,674	-	5,674	19,185
(Increase) Decrease In:				
Assessments Receivable	(4,929)	-	(4,929)	(11,771)
Prepaid Expenses	(6,450)	-	(6,450)	(2,443)
Increase (Decrease) in:				
Accounts Payable and Accrued Expenses	21,781	-	21,781	(24,993)
Assessments Received in Advance	3,755	-	3,755	2,376
Net Cash Provided (Used) by Operating Activities	<u>\$ 14,206</u>	<u>\$ 22,007</u>	<u>\$ 36,213</u>	<u>\$ (22,674)</u>

See accompanying Notes to Financial Statements.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

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 limits.

Certificates of Deposit

Certificates of deposit are recorded at cost which approximates fair value.

Member Assessments

The Association's current policy is to assess each unit owner monthly a fixed amount based on the annual budget determined by the board of directors ("board"). Each unit owner's assessment is based on a proportional share of common element income and expense. The Association's policy is to place liens on the units of members whose assessments are delinquent. Management has evaluated the assessments receivable at December 31, 2009 and determined an allowance for uncollectible amounts in the amount of \$30,402 necessary.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

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.

Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. The Association has chosen to file its tax returns as a regular corporation wherein membership income is exempt from taxation if certain elections are made and the Association is taxed only on its non-membership income, such as interest earnings, at regular corporate rates. The Association's income tax expense for the year ended December 31, 2009, was approximately \$5,891

The Association adopted the income tax standard for uncertain tax positions on January 1, 2009. As a result of the implementation, the Association evaluated its tax positions and determined it has no uncertain tax positions as of December 31, 2009. The Association's 2007, 2008, and 2009 tax years are open for examination by the IRS.

Fair Value of Financial Instruments

The Association follows the standard which allows 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. The Association has not elected to measure any newly acquired financial instruments at fair value at December 31, 2009.

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.

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform to the presentation in the current year financial statements. Such reclassifications have no effect on previously reported changes in net assets.

Prior Year Information

The financial statements include certain prior-year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2008, from which the summarized information was derived.

**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 21, 2010, the date the financial statements were available to be issued.

NOTE 2 CERTIFICATES OF DEPOSIT

The Association's certificates of deposit at December 31, 2009 consist of the following:

Maturity Date	Value	Rate
April 2, 2010	\$ 52,172	2.19%
	\$ 52,172	

NOTE 3 ASSESSMENTS AND OTHER RECEIVABLES, NET

Assessments and other receivables consisted of the following at December 31, 2009:

Assessments Receivable	\$	16,835
Other Fees Receivable		21,237
		38,072
Less: Allowance for Doubtful Accounts		(30,402)
	\$	7,670

NOTE 4 ASSESSMENTS RECEIVED IN ADVANCE

Assessments received in advance totaling \$22,215 at December 31, 2009, consists of 2010 assessments received by the Association prior to January 1, 2010.

NOTE 5 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.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 5 FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

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 2009 \$49,842 was expended for certain equipment replacement and maintenance work regarding the Association's pool, fence, and other items. As of December 31, 2009, the Association has accumulated \$146,752 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 21, 2010

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NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS (UNAUDITED)
DECEMBER 31, 2009
(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, 2009, is as follows:

<u>Interval Replacement</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>
Concrete Sidewalk	6- 54	\$ 115,260
Concrete Curb/Gutters	3-57	167,400
<u>Interval Replacement</u>		
Site Improvements	5-28	142,400
Asphalt - Phase 1	5	342,889
Asphalt - Phase 2	5	130,730
Swimming Pool	1-31	603,045
Recreational Facilities	2-20	118,680
Pool & Guard Buildings	5-25	89,722
Pool Building and Site	7-19	89,743
		<u>\$ 1,799,869</u>

The pooled balance of the reserve fund as of December 31, 2009 was \$146,752.