

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

**YEAR ENDED DECEMBER 31, 2010
(WITH SUMMARIZED FINANCIAL INFORMATION
DECEMBER 31, 2009)**

**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
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YEAR ENDED DECEMBER 31, 2010**

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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, 2010, 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, 2009, financial statements and, in our report dated October 21, 2010, 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, 2010, 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
August 18, 2011



(1)

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NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2010
(WITH SUMMARIZED FINANCIAL INFORMATION AT DECEMBER 31, 2009)

	Operating Fund	Replacement Fund	Total	
			2010	2009
ASSETS				
Cash and Cash Equivalents	\$ 58,871	\$ 90,026	\$ 148,897	\$ 214,555
Certificate of Deposit	-	-	-	52,172
Assessments Receivable, Net	8,747	-	8,747	7,670
Prepaid Expenses	5,093	-	5,093	9,394
Due From Other Fund	2,849	(2,849)	-	-
	\$ 75,560	\$ 87,177	\$ 162,737	\$ 283,791
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 11,344	\$ -	\$ 11,344	\$ 33,468
Assessments Received in Advance	24,259	-	24,259	22,215
	35,603	-	35,603	55,683
FUND BALANCES	39,956	87,178	127,134	228,108
Total Liabilities and Fund Balances	\$ 75,559	\$ 87,178	\$ 162,737	\$ 283,791

See accompanying Notes to Financial Statements.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2010
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2009)

	Operating Fund	Replacement Fund	Total	
			2010	2009
REVENUES				
Maintenance Assessments	\$ 277,501	\$ 86,030	\$ 363,531	\$ 363,531
Pool Revenue	34,010	-	34,010	40,895
Interest Income	317	231	548	1,250
Other Income	18,757	-	18,757	24,572
Total Revenues	330,585	86,261	416,846	430,248
EXPENSES				
Administrative	20,872	340	21,212	16,525
Commission on Common Ownership	1,338	-	1,338	1,338
Bad Debt	7,459	-	7,459	5,674
Insurance	5,921	-	5,921	3,665
Landscaping	52,087	-	52,087	49,751
Management Fees	55,032	-	55,032	53,429
Removal Services	77,425	-	77,425	65,423
Taxes	7,811	-	7,811	5,891
Professional Fees	12,433	-	12,433	14,899
Pool Expense	66,485	-	66,485	75,709
Repairs and Maintenance	26,558	145,496	172,054	78,018
Security	29,733	-	29,733	35,992
Utilities	8,830	-	8,830	7,552
Total Expenses	371,984	145,836	517,820	413,866
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	(41,399)	(59,575)	(100,974)	16,382
Fund Balances - Beginning of Year	81,355	146,753	228,108	211,726
FUND BALANCES - END OF YEAR	\$ 39,956	\$ 87,178	\$ 127,134	\$ 228,108

See accompanying Notes to Financial Statements.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2010
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2009)

	Operating Fund	Replacement Fund	Total	
			2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Member Assessments	\$ 271,009	\$ 86,030	\$ 357,039	\$ 362,353
Cash Received from Pool Revenue	34,010	-	34,010	40,895
Cash Received from Interest Income	317	231	548	1,248
Cash Received from Other Income	18,757	-	18,757	24,572
Cash Paid to Suppliers	(374,197)	(145,836)	(520,033)	(391,012)
Cash Paid for Interest	(340)	-	(340)	-
Cash Paid for Taxes	(7,811)	-	(7,811)	(1,843)
Net Cash Provided (Used) by Operating Activities	(58,255)	(59,575)	(117,830)	36,213
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Certificates of Deposit	-	-	-	(52,172)
Proceeds from Certificates of Deposit	52,172	-	52,172	50,722
Net Cash Provided (Used) by Investing Activities	52,172	-	52,172	(1,450)
CASH FLOWS FROM FINANCING ACTIVITIES				
Change in Interfund Borrowings	1	(1)	-	-
Net Cash Provided (Used) by Financing Activities	1	(1)	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	(6,082)	(59,576)	(65,658)	34,763
Cash and Cash Equivalents - Beginning of Year	64,953	149,602	214,555	179,792
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 58,871</u>	<u>\$ 90,026</u>	<u>\$ 148,897</u>	<u>\$ 214,555</u>

(continued)

See accompanying Notes to Financial Statements.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2010
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2009)

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	
			2010	2009
RECONCILIATION OF EXCESS (DEFICIT) OF REVENUES OVER EXPENSES TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Excess (Deficit) of Revenues Over Expenses	\$ (41,399)	\$ (59,575)	\$ (100,974)	\$ 16,382
Adjustments to Reconcile Excess (Deficit) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:				
Bad Debt	7,459	-	7,459	5,674
(Increase) Decrease In:				
Assessments Receivable	(8,536)	-	(8,536)	(4,929)
Prepaid Expenses	4,301	-	4,301	(6,450)
Increase (Decrease) in:			-	
Accounts Payable and Accrued Expenses	(22,124)	-	(22,124)	21,781
Assessments Received in Advance	2,044	-	2,044	3,755
Net Cash Provided (Used) by Operating Activities	<u>\$ (58,255)</u>	<u>\$ (59,575)</u>	<u>\$ (117,830)</u>	<u>\$ 36,213</u>

See accompanying Notes to Financial Statements.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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 Olney, 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.

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, 2010 and determined an allowance for uncollectible amounts in the amount of \$28,101 necessary.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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, 2010, was approximately \$7,811

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, 2010. The Association's 2008, 2009, and 2010 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, 2010.

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.

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, 2009, from which the summarized information was derived.

Subsequent Events

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 18, 2011, the date the financial statements were available to be issued.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 2 ASSESSMENTS AND OTHER RECEIVABLES, NET

Assessments and other receivables consisted of the following at December 31, 2010:

Assessments Receivable	\$ 25,034
Other Fees Receivable	11,814
	<u>36,848</u>
Less: Allowance for Doubtful Accounts	<u>(28,101)</u>
	<u>\$ 8,747</u>

NOTE 3 ASSESSMENTS RECEIVED IN ADVANCE

Assessments received in advance totaling \$24,259 at December 31, 2010, consist of 2011 assessments received by the Association prior to January 1, 2011.

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.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 4 FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

In 2010, \$145,836 was expended from the replacement fund for bank charges and for certain equipment replacement and maintenance work regarding the Association's pool, pool fixtures and roadways. As of December 31, 2010, the Association has accumulated \$87,177 for future majors and replacements.

<u>Expenditures</u>	<u>Cost</u>
Pool Repairs	\$ 3,269
Light Fixtures	3,105
Asphalt Repairs	139,122
Bank Charges	<u>340</u>
	<u><u>\$ 145,836</u></u>



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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
August 18, 2011



NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS (UNAUDITED)
DECEMBER 31, 2010
(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 2009. 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, 2010, is as follows:

<u>Replacement</u>	<u>Estimated Current Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>
Concrete Sidewalk	0 - 53	\$ 115,260
Concrete Curb/Gutters	2 - 56	167,400
Asphalt Repairs	4	423,766
Asphalt Seal Coat	0	49,857
Light Fixtures	16 - 27	139,400
Storm Water System	4	3,000
Swimming Pool Concrete	9 - 30	79,848
Swimming Pool Furniture	0 - 6	16,000
Swimming Pool Fence	9 - 18	10,084
Swimming Pool Pavilion	9 - 24	64,059
Swimming Pool - Other	0 - 24	603,045
Tot Lots	9 - 14	54,300
Tennis Court	1 - 18	64,380
		<u>\$ 1,790,399</u>

The pooled balance of the reserve fund as of December 31, 2010 was \$87,177.

The Association's replacement reserve inventory identifies 101 projected replacements grouped into 13 major categories with a one-time replacement cost of \$1,790,399. This study also estimates that over a 30-year period, the future replacement costs total \$2,615,861. These future costs were not broken out into components.