

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2011
(WITH SUMMARIZED FINANCIAL INFORMATION FOR
DECEMBER 31, 2010)**

**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
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CliftonLarsonAllen

CliftonLarsonAllen LLP
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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, 2011, 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, 2010, financial statements and, in our report dated August 18, 2011, 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, 2011, 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.

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
August 16, 2012

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2011
(WITH SUMMARIZED FINANCIAL INFORMATION AT DECEMBER 31, 2010)

	Operating Fund	Replacement Fund	Total	
			2011	2010
ASSETS				
Cash and Cash Equivalents	\$ 58,544	\$ 117,614	\$ 176,158	\$ 148,897
Assessments and Other Receivables, Net	7,918	-	7,918	8,747
Prepaid Expenses	5,558	-	5,558	5,093
	<u>58,544</u>	<u>117,614</u>	<u>176,158</u>	<u>152,737</u>
 Total Assets	 <u>\$ 72,020</u>	 <u>\$ 117,614</u>	 <u>\$ 189,634</u>	 <u>\$ 162,737</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 14,548	\$ -	\$ 14,548	\$ 11,344
Assessments Received in Advance	24,099	-	24,099	24,259
	<u>14,548</u>	<u>-</u>	<u>14,548</u>	<u>35,603</u>
 Total Liabilities	 38,647	 -	 38,647	 35,603
 FUND BALANCES	 <u>33,373</u>	 <u>117,614</u>	 <u>150,987</u>	 <u>127,134</u>
 Total Liabilities and Fund Balances	 <u>\$ 72,020</u>	 <u>\$ 117,614</u>	 <u>\$ 189,634</u>	 <u>\$ 162,737</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, 2011
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2010)

	Operating Fund	Replacement Fund	Total	
			2011	2010
REVENUES				
Maintenance Assessments	\$ 296,326	\$ 96,604	\$ 392,930	\$ 363,531
Pool Revenue	33,795	-	33,795	34,010
Interest Income	24	296	320	548
Other Income	17,657	-	17,657	18,757
Total Revenues	347,802	96,900	444,702	416,846
EXPENSES				
Administrative	17,785	150	17,935	21,212
Commission on Common Ownership	1,338	-	1,338	1,338
Bad Debt	12,392	-	12,392	7,459
Insurance	5,970	-	5,970	5,921
Landscaping	51,030	-	51,030	52,087
Management Fees	56,683	-	56,683	55,032
Removal Services	40,442	-	40,442	77,425
Taxes	5,487	-	5,487	7,811
Professional Fees	5,502	-	5,502	12,433
Pool Expense	78,472	-	78,472	66,485
Repairs and Maintenance	41,465	66,314	107,779	172,054
Security	30,307	-	30,307	29,733
Utilities	7,512	-	7,512	8,830
Total Expenses	354,385	66,464	420,849	517,820
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	(6,583)	30,436	23,853	(100,974)
Fund Balances - Beginning of Year	39,956	87,178	127,134	228,108
FUND BALANCES - END OF YEAR	\$ 33,373	\$ 117,614	\$ 150,987	\$ 127,134

See accompanying Notes to Financial Statements.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2010)

	Operating	Replacement	Total	
	Fund	Fund	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Member Assessments	\$ 284,603	\$ 96,604	\$ 381,207	\$ 357,039
Cash Received from Pool Revenue	33,795	-	33,795	34,010
Cash Received from Interest Income	24	296	320	548
Cash Received from Other Income	17,657	-	17,657	18,757
Cash Paid to Suppliers	(333,617)	(66,464)	(400,081)	(520,033)
Cash Paid for Interest	(150)	-	(150)	(340)
Cash Paid for Taxes	(5,487)	-	(5,487)	(7,811)
Net Cash Provided (Used) by Operating Activities	(3,175)	30,436	27,261	(117,830)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Certificates of Deposit	-	-	-	52,172
Net Cash Provided by Investing Activities	-	-	-	52,172
CASH FLOWS FROM FINANCING ACTIVITIES				
Change in Interfund Borrowings	2,848	(2,848)	-	-
Net Cash Provided (Used) by Financing Activities	2,848	(2,848)	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(327)	27,588	27,261	(65,658)
Cash and Cash Equivalents - Beginning of Year	58,871	90,026	148,897	214,555
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 58,544</u>	<u>\$ 117,614</u>	<u>\$ 176,158</u>	<u>\$ 148,897</u>

(continued)

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2011
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2010)

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	
			2011	2010
RECONCILIATION OF EXCESS (DEFICIT) OF REVENUES OVER EXPENSES TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Excess (Deficit) of Revenues Over Expenses	\$ (6,583)	\$ 30,436	\$ 23,853	\$ (100,974)
Adjustments to Reconcile Excess (Deficit) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:				
Bad Debt	12,392	-	12,392	7,459
(Increase) In:				
Assessments Receivable	(11,563)	-	(11,563)	(8,536)
Prepaid Expenses	(465)	-	(465)	4,301
Increase (Decrease) in:				
Accounts Payable and Accrued Expenses	3,204	-	3,204	(22,124)
Assessments Received in Advance	(160)	-	(160)	2,044
Net Cash Provided (Used) by Operating Activities	<u>\$ (3,175)</u>	<u>\$ 30,436</u>	<u>\$ 27,261</u>	<u>\$ (117,830)</u>

See accompanying Notes to Financial Statements.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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, 2011 and determined an allowance for uncollectible amounts in the amount of \$26,295 necessary.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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, 2011, was \$5,487.

The Association follows the income tax standard for uncertain tax positions. As a result, the Association evaluated its tax positions and determined it has no uncertain tax positions as of December 31, 2011. The Association's 2009 through 2011 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, 2011.

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, 2010, 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 16, 2012, the date the financial statements were available to be issued.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 2 ASSESSMENTS AND OTHER RECEIVABLES, NET

Assessments and other receivables consisted of the following at December 31, 2011:

Assessments Receivable	\$ 24,024
Other Fees Receivable	10,189
	<u>34,213</u>
Less: Allowance for Doubtful Accounts	<u>(26,295)</u>
	<u>\$ 7,918</u>

NOTE 3 ASSESSMENTS RECEIVED IN ADVANCE

Assessments received in advance totaling \$24,099 at December 31, 2011, consist of 2012 assessments received by the Association prior to January 1, 2012.

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, 2011**

NOTE 4 FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

In 2011, \$66,464 was expended as follows:

<u>Expenditures</u>	<u>Cost</u>
Pool Repairs	\$ 2,759
Slide Replacement	1,221
Asphalt Repairs	61,319
Bank Charges	150
Other	1,015
	<u>\$ 66,464</u>

As of December 31, 2011, the Association has accumulated \$117,614 for future majors and replacements.

NOTE 5 COMMITMENTS AND CONTINGENCIES

The Association, on occasion, contracts for trash removals, lawn care, management and other professional fees on a multi-year basis.

NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS (UNAUDITED)
DECEMBER 31, 2011
(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 2010. The table presents significant information about the components of the common areas. These estimated replacement costs have not considered the effect of inflation, interest rates for earning of investments, or a constant annual increase in annual funding of replacement reserves 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, 2011, is as follows:

<u>Replacement</u>	<u>Estimated 2010 Remaining Useful Lives (Years)</u>	<u>Estimated 2010 Replacement Costs</u>
Concrete Sidewalk	0 - 54	\$ 115,260
Concrete Curb/Gutters	3 - 57	167,400
Asphalt Repairs	5	423,766
Asphalt Seal Coat	0	49,857
Light Fixtures	17 - 28	139,400
Storm Water System	5	3,000
Swimming Pool Concrete	10 - 31	79,848
Swimming Pool Furniture	1 - 7	16,000
Swimming Pool Fence	10 - 19	10,084
Swimming Pool Pavilion	10 - 25	64,059
Swimming Pool - Other	1 - 25	612,520
Tot Lots	10 - 15	54,300
Tennis Court	2 - 19	64,380
		<u>\$ 1,799,874</u>

The pooled balance of the reserve fund as of December 31, 2011 was \$117,614.

The Association's replacement reserve inventory identifies 101 projected replacements grouped into 13 major categories with a one-time replacement cost of \$1,799,874. 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.