

**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2012  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR  
DECEMBER 31, 2011)**

**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.  
TABLE OF CONTENTS  
YEAR ENDED DECEMBER 31, 2012**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
<b>BALANCE SHEET</b>	<b>3</b>
<b>STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES</b>	<b>4</b>
<b>STATEMENT OF CASH FLOWS</b>	<b>5</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>7</b>
<b>SUPPLEMENTARY INFORMATION</b>	
<b>SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND     REPLACEMENTS (UNAUDITED)</b>	<b>11</b>



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## INDEPENDENT AUDITORS' REPORT

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

### ***Report on Financial Statements***

We have audited the accompanying balance sheet of Norbeck Hills Homeowners Association, Inc. (the Association) as of December 31, 2012, and the related statements of revenues, expenses and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***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, 2012, 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.

Board of Directors  
Norbeck Hills Homeowners Association, Inc.

***Disclaimer of Opinion on Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 11 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.

***Report on Summarized Comparative Information***

We have previously audited the financial statements of Norbeck Hills Homeowners Association, Inc. as of December 31, 2011, and our report dated August 16, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.



**CliftonLarsonAllen LLP**

Arlington, Virginia  
May 22, 2013

**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.**  
**BALANCE SHEET**  
**DECEMBER 31, 2012**  
(WITH SUMMARIZED FINANCIAL INFORMATION AT DECEMBER 31, 2011)

	Operating Fund	Replacement Fund	Total	
			2012	2011
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 90,622	\$ 119,908	\$ 210,530	\$ 176,158
Assessments and Other Receivables, Net	7,796	-	7,796	7,918
Prepaid Expenses	9,331	-	9,331	5,558
Total Assets	\$ 107,749	\$ 119,908	\$ 227,657	\$ 189,634
 <b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable and Accrued Expenses	\$ 18,358	\$ -	\$ 18,358	\$ 14,548
Assessments Received in Advance	24,600	-	24,600	24,099
Total Liabilities	42,958	-	42,958	38,647
 <b>FUND BALANCES</b>				
	64,791	119,908	184,699	150,987
Total Liabilities and Fund Balances	\$ 107,749	\$ 119,908	\$ 227,657	\$ 189,634

See accompanying Notes to Financial Statements.

**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND BALANCES**  
**YEAR ENDED DECEMBER 31, 2012**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2011)**

	Operating Fund	Replacement Fund	Total	
			2012	2011
<b>REVENUES</b>				
Maintenance Assessments	\$ 305,119	\$ 96,604	\$ 401,723	\$ 392,930
Pool Revenue	40,530	-	40,530	33,795
Interest Income	17	338	355	320
Other Income	23,373	-	23,373	17,657
<b>Total Revenues</b>	<b>369,039</b>	<b>96,942</b>	<b>465,981</b>	<b>444,702</b>
<b>EXPENSES</b>				
Administrative	17,244	10	17,254	17,935
Commission on Common Ownership	1,338	-	1,338	1,338
Bad Debt	2,755	-	2,755	12,392
Insurance	6,012	-	6,012	5,970
Landscaping	52,560	-	52,560	51,030
Management Fees	57,817	-	57,817	56,683
Removal Services	28,543	-	28,543	40,442
Taxes	1,235	-	1,235	5,487
Professional Fees	10,208	-	10,208	5,502
Pool Expense	72,209	-	72,209	78,472
Repairs and Maintenance	49,279	94,638	143,917	107,779
Security	30,799	-	30,799	30,307
Utilities	7,622	-	7,622	7,512
<b>Total Expenses</b>	<b>337,621</b>	<b>94,648</b>	<b>432,269</b>	<b>420,849</b>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<b>31,418</b>	<b>2,294</b>	<b>33,712</b>	<b>23,853</b>
Fund Balances - Beginning of Year	33,373	117,614	150,987	127,134
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 64,791</b>	<b>\$ 119,908</b>	<b>\$ 184,699</b>	<b>\$ 150,987</b>

See accompanying Notes to Financial Statements.

**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2012**  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2011)

	Operating Fund	Replacement Fund	Total	
			2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received from Member Assessments	\$ 302,987	\$ 96,604	\$ 399,591	\$ 381,207
Cash Received from Pool Revenue	40,530	-	40,530	33,795
Cash Received from Interest Income	17	338	355	320
Cash Received from Other Income	23,373	-	23,373	17,657
Cash Paid to Suppliers	(333,584)	(94,648)	(428,232)	(400,081)
Cash Paid for Interest	(10)	-	(10)	(150)
Cash Paid for Taxes	(1,235)	-	(1,235)	(5,487)
Net Cash Provided by Operating Activities	32,078	2,294	34,372	27,261
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	32,078	2,294	34,372	27,261
Cash and Cash Equivalents - Beginning of Year	58,544	117,614	176,158	148,897
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 90,622</u>	<u>\$ 119,908</u>	<u>\$ 210,530</u>	<u>\$ 176,158</u>

(continued)

See accompanying Notes to Financial Statements.

**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2012**  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2011)

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	
			2012	2011
<b>RECONCILIATION OF EXCESS OF REVENUES OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Excess of Revenues Over Expenses	\$ 31,418	\$ 2,294	\$ 33,712	\$ 23,853
Adjustments to Reconcile Excess of Revenues Over Expenses to Net Cash Provided by Operating Activities:				
Bad Debt	2,755	-	2,755	12,392
(Increase) In:				
Assessments Receivable	(2,633)	-	(2,633)	(11,563)
Prepaid Expenses	(3,773)	-	(3,773)	(465)
Increase (Decrease) in:				
Accounts Payable and Accrued Expenses	3,810	-	3,810	3,204
Assessments Received in Advance	501	-	501	(160)
Net Cash Provided by Operating Activities	<u>\$ 32,078</u>	<u>\$ 2,294</u>	<u>\$ 34,372</u>	<u>\$ 27,261</u>

See accompanying Notes to Financial Statements.



**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**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, 2012 and determined an allowance for uncollectible amounts in the amount of \$29,050 necessary.

**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**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, 2012, was \$1,235

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, 2012. The Association's 2010 through 2012 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, 2012.

**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, 2011, 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 May 22, 2013, the date the financial statements were available to be issued.

**NORBECK HILLS HOMEOWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**NOTE 2 ASSESSMENTS AND OTHER RECEIVABLES, NET**

Assessments and other receivables consisted of the following at December 31, 2012:

Assessments Receivable	\$ 26,777
Other Fees Receivable	10,069
	<u>36,846</u>
Less: Allowance for Doubtful Accounts	<u>(29,050)</u>
	<u><u>\$ 7,796</u></u>

**NOTE 3 ASSESSMENTS RECEIVED IN ADVANCE**

Assessments received in advance totaling \$24,600 at December 31, 2012, consist of 2013 assessments received by the Association prior to January 1, 2013.

**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, 2012**

**NOTE 4 FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)**

In 2012, \$94,648 was expended as follows:

<u>Expenditures</u>	<u>Cost</u>
Pool Repairs	\$ 18,180
Asphalt Repairs	72,009
Bank Charges	10
Other	4,450
	<u>\$ 94,648</u>

As of December 31, 2012, the Association has accumulated \$119,908 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, 2012**

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, 2012, 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, 2012 was \$119,908.

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.