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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, 2012, and have issued our report thereon dated May 22, 2013. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

## Significant audit findings

### *Qualitative aspects of accounting practices*

#### Accounting policies

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.

No new accounting policies were adopted and the application of existing policies was not changed during 2012.

We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

#### Accounting estimates

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.
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> 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.

*Financial statement disclosures*

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

***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 correct equity to match prior year financial statements, an adjustment to record accounts payable at year end and an adjustment to increase the allowance for doubtful accounts.

***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. No such disagreements arose during our audit.

***Management representations***

We have requested certain representations from management that are included in the management representation letter dated May 22, 2013.

***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.

***Significant issues discussed with management prior to engagement***

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.

**Other information in documents containing audited financial statements**

With respect to the supplementary information about future major repairs and replacements required by the Financial Accounting Standards Board (FASB), we applied certain limited procedures to the information. We made certain inquiries of management about the methods of preparing the required supplementary information (RSI), including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

**Internal control related matters identified in the audit**

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, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the entity's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

- A deficiency in *design* exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met.

- A deficiency in *operation* exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

***Material weaknesses***

We consider the following deficiencies in the entity's internal control 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, result of operations, cash flows, disclosures in the financial statements and related adjusting journal entries in conformity with U.S. generally accepted accounting principles (GAAP). The Association has a system of internal controls and staff with the capabilities that would enable management to prepare complete financial statements except for the related footnote disclosures in accordance with GAAP. The board of directors requested us to prepare a draft of the financial statements, including the related footnote disclosures, as this would be a time-consuming task. The outsourcing of these services is not unusual for associations of your size and is a result of management's cost benefit decision to rely on our accounting expertise rather than incurring this internal resource cost.

This information is intended solely for the information and 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.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Arlington, Virginia
May 22, 2013