

**DORAL HOMEOWNERS ASSOCIATION, INC.**

FINANCIAL STATEMENTS

DECEMBER 31, 2013 and 2012

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Silver Spring, Maryland

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Doral Homeowners Association which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of revenues, expenses and appropriations, schedules of expenses, statements of changes in association equity and cash flows for the years 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from 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 auditor's 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 entity'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 entity'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 Doral Homeowners Association as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT Cont'd

**Disclaimer of Opinion on 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 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.

The budget information is presented for purposes of additional analyses and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

October 9, 2014

*Singletan + Bardowski LLC*

DORAL HOMEOWNERS ASSOCIATION  
BALANCE SHEETS

	DECEMBER 31,	
	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Operating Fund:		
Cash - checking	\$ 32,955	\$ 26,808
Assessments receivable (Note 1)	3,098	1,657
Prepaid insurance	<u>354</u>	<u>354</u>
Total Operating Fund	<u>36,407</u>	<u>28,819</u>
Replacement fund:		
Cash and investments (Note 2)	<u>28,912</u>	<u>22,846</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 65,319</b></u>	<u><b>\$ 51,665</b></u>
 <b>LIABILITIES</b>		
Operating fund:		
Accounts payable	\$ 2,858	\$ 1,958
Prepaid assessments	<u>12,656</u>	<u>16,861</u>
Total Operating Fund Liabilities	<u>15,514</u>	<u>18,819</u>
 <b>ASSOCIATION EQUITY (Note 4)</b>		
Retained earnings, operating fund	20,892	10,000
Operating reserve	768	768
Replacement fund reserve	<u>28,145</u>	<u>22,078</u>
Total Association Equity	<u>49,805</u>	<u>32,846</u>
<b>TOTAL LIABILITIES AND ASSOCIATION EQUITY</b>	<u><b>\$ 65,319</b></u>	<u><b>\$ 51,665</b></u>

The accompanying notes are an integral part of these statements.

DORAL HOMEOWNERS ASSOCIATION  
STATEMENTS OF REVENUE, EXPENSES, AND APPROPRIATIONS -  
OPERATING FUND

	FOR THE YEARS ENDED DECEMBER 31,		
	ACTUAL	BUDGET	ACTUAL
	<u>2013</u>	<u>2013</u>	<u>2012</u>
REVENUE:			
Assessments (Note 1)	\$ 74,436	\$ 74,436	\$ 74,436
Less: replacement fund appropriations	(7,500)	(7,500)	(7,500)
Interest	7	25	3
Less: interest contr. reserves	(7)	(25)	(3)
ARC income	919	-	1,844
Miscellaneous income	<u>1,270</u>	<u>-</u>	<u>2</u>
Total Revenue	<u>69,125</u>	<u>66,936</u>	<u>68,782</u>
EXPENSES (Schedule A):			
Utilities	301	350	272
Service contracts	30,644	35,464	32,465
Maintenance	5,008	14,065	7,989
General & administrative	19,916	14,607	10,215
Taxes & insurance	<u>2,364</u>	<u>2,450</u>	<u>2,337</u>
Total Expenses	<u>58,233</u>	<u>66,936</u>	<u>53,278</u>
EXCESS REVENUE (EXPENSES) BEFORE ADDITIONAL TRANSFER	10,892	-	15,504
ADDITIONAL TRANSFER TO RESERVES	<u>-</u>	<u>-</u>	<u>(12,478)</u>
EXCESS REVENUE (EXPENSES)	<u>\$ 10,892</u>	<u>\$ -</u>	<u>\$ 3,026</u>

The accompanying notes are an integral part of these statements.

DORAL HOMEOWNERS ASSOCIATION  
SCHEDULES OF EXPENSES

Schedule A  
FOR THE YEARS ENDED  
DECEMBER 31,

	ACTUAL <u>2013</u>	BUDGET <u>2013</u>	ACTUAL <u>2012</u>
<b>UTILITIES:</b>			
Electric	\$ 301	\$ 350	\$ 272
<b>SERVICE CONTRACTS:</b>			
Management	8,863	8,864	8,441
Grounds maintenance	10,141	13,500	12,458
Trash removal	9,967	11,500	9,966
Snow removal	623	1,000	-
Storm water maintenance	<u>1,050</u>	<u>600</u>	<u>1,600</u>
Total Service Contracts	<u>30,644</u>	<u>35,464</u>	<u>32,465</u>
<b>MAINTENANCE:</b>			
Maintenance & repairs	2,038	6,000	5,864
Tree maintenance	2,970	2,565	175
Unanticipated project	<u>-</u>	<u>5,500</u>	<u>1,950</u>
Total Maintenance	<u>5,008</u>	<u>14,065</u>	<u>7,989</u>
<b>GENERAL &amp; ADMINISTRATIVE:</b>			
Administrative support	3,335	800	571
Auditing	2,200	2,250	2,200
Bad debt expense	-	850	-
Assessment discount	389	660	504
Postage	1,618	1,200	1,040
Coupon printing	760	670	685
Printing & reproduction	1,818	2,100	1,906
Legal	9,297	3,577	2,539
Mont. County annual fees	499	500	474
Website development	<u>-</u>	<u>2,000</u>	<u>296</u>
Total General & Administrative	<u>19,916</u>	<u>14,607</u>	<u>10,215</u>
<b>TAXES &amp; INSURANCE:</b>			
Insurance	<u>2,364</u>	<u>2,450</u>	<u>2,337</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><b>\$ 58,233</b></u>	<u><b>\$ 66,936</b></u>	<u><b>\$ 53,278</b></u>

The accompanying notes are an integral part of these statements.

DORAL HOMEOWNERS ASSOCIATION  
STATEMENTS OF CHANGES IN ASSOCIATION EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2013

	<u>TOTAL</u>	<u>RETAINED EARNINGS OPER-FUND</u>	<u>OPER- ATING RESERVE</u>	<u>REPLACE- MENT FUND RESERVE</u>
Balances January 1, 2012	\$ 9,854	\$ 6,974	\$ 768	\$ 2,112
Excess Revenue (Expenses)	3,026	3,026	-	-
Replacement fund expense:				
Bank fee	(15)	-	-	(15)
Replacement fund reserve appropriations:				
Budgeted	7,500	-	-	7,500
Interest	3	-	-	3
Additional transfer (Page 4)	<u>12,478</u>	<u>-</u>	<u>-</u>	<u>12,478</u>
Balances December 31, 2012	32,846	10,000	768	22,078
Excess Revenue (Expenses)	10,892	10,892	-	-
Replacement fund expense:				
Bank fee	(180)	-	-	(180)
Path construction engineer	(1,260)	-	-	(1,260)
Replacement fund reserve appropriations:				
Budgeted	7,500	-	-	7,500
Interest	<u>7</u>	<u>-</u>	<u>-</u>	<u>7</u>
Balances December 31, 2013	<u>\$ 49,805</u>	<u>\$ 20,892</u>	<u>\$ 768</u>	<u>\$ 28,145</u>

The accompanying notes are an integral part of these statements.



DORAL HOMEOWNERS ASSOCIATION  
STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED DECEMBER 31,	
	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Excess revenue (expenses)	\$ 10,892	\$ 3,026
Adjustments to reconcile excess revenue (expenses) to net cash provided by operating activities:		
Replacement fund appropriations	7,507	19,981
Replacement fund expense	(1,440)	(15)
Changes in Assets and Liabilities:		
Decrease (increase) in:		
Accounts receivable	(1,441)	1,948
Increase (decrease) in:		
Payables	900	451
Prepaid assessments	<u>(4,205)</u>	<u>2,763</u>
Net Cash Provided by (Used in) Operating Activities	<u>12,213</u>	<u>28,154</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,213	28,154
CASH AND EQUIVALENTS AT BEGINNING OF THE YEAR	<u>49,654</u>	<u>21,500</u>
CASH AND EQUIVALENTS AT END OF YEAR	<u>\$ 61,867</u>	<u>\$ 49,654</u>
<u>SUMMARY OF CASH ACCOUNTS</u>		
Checking, page 3	\$ 32,955	\$ 26,808
Checking, page 9	-	12,478
Money market, page 9	<u>28,912</u>	<u>10,368</u>
Total	<u>\$ 61,867</u>	<u>\$ 49,654</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash paid during the year for:		
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Interest	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

DORAL HOMEOWNERS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND ACCOUNTING POLICIES

The Doral Homeowners Association (The Association) was incorporated in the state of Maryland on July 11, 1988. The Association located in Silver Spring, Maryland is a non-profit, non-stock corporation, consisting of 137 single family homes and 20 townhouse units. The purpose of the Association is to promote the recreation, health, safety, and welfare of the residents in the community and for the improvement and maintenance of the common areas.

The Association's financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Under this basis, assessment income is recognized in the period earned, and expenses in the period incurred.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America also requires that management evaluate the effect of subsequent events on the financial statements. Subsequent events are events or transactions which occur after the balance sheet date but before the financial statements are issued. The Association did not have any subsequent events through October 9, 2014 which is the date the financial statements were available to be issued, that required recording or disclosure in the financial statements for the year ended December 31, 2013.

The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the Board of Directors. Disbursements from the replacement fund generally may be made only for designated purposes.

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements since the property cannot be disposed of at the discretion of the Board of Directors. Common property includes, but is not limited to, land and recreational areas.

The Association utilizes the allowance method of accounting for bad debts under which an allowance is established by a charge to expense. Individual receivables are written off in whole, or part, against the allowance when a determination is made that they are uncollectible. Bad debt expense for 2013 and 2012 was \$0. The Association believes that the assessments are fully collectible and no allowance is necessary as of December 31, 2013 and 2012.

DORAL HOMEOWNERS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

The annual budget and assessments of owners are determined by the Board of Directors. Monthly assessments to owners were \$39.00 for single family units and \$43.00 for townhouse units in 2013 and 2012. Of those amounts \$3.93 for single family units and \$4.33 for townhouse units was designated to the replacement fund reserve in 2013 and 2012. Additionally, \$12,478 from excess revenue was transferred to the replacement fund reserves in 2012.

NOTE 2. CASH AND INVESTMENTS

The Association's cash and investments designated for replacement fund and operating reserves consist of the following:

<u>Institution</u>	<u>Maturity Date</u>	<u>Int. %</u>	<u>12/31/13</u>	<u>12/31/12</u>
Checking	demand	n/a	\$ -	\$ 12,478
Money Market	demand	0.05%	<u>28,912</u>	<u>10,368</u>
Total			<u>\$ 28,912</u>	<u>\$ 22,846</u>

For purposes of the statements of cash flows, cash and equivalents include demand deposits and investments with original maturities of three months or less whose value is readily determinable.

NOTE 3. INCOME TAXES

For income tax purposes, the Association may elect annually to file either as an exempt homeowners association under Section 528, or as an ordinary membership organization under Section 277. As an exempt homeowners association, the Association's net assessment income is exempt from income tax, but its interest income is taxed at 30%.

Electing to file as a membership organization, the Association would be taxed on its net income from all sources, (to the extent not capitalized or deferred) at normal corporate rates starting at 15%, subject to the limitation that operating expenses are deductible only to the extent of income from members. For 2013 the income taxes were calculated using the exempt homeowner's association method, resulting in no income tax expense.

The Association has determined that it has no uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. Nevertheless, since tax matters are subject of some degree of uncertainty, there can be no assurance that the Association's tax returns will not be challenged by taxing authorities and that the Association will not be subject to additional tax, penalties and interest as a result of such challenge. Management believes that all of the positions taken on its federal and state income tax returns would more likely than not be sustained upon examination. Generally, the Association's tax returns are subject to possible federal and state examination for three years.

DORAL HOMEOWNERS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4. ASSOCIATION EQUITY

The retained earnings operating fund provides for the maintenance, operation and normal repair of the common and limited common elements of the Association.

The operating fund reserve provides for operating contingencies that have not been budgeted for.

The replacement reserve provides for the major repair or replacement of the common and limited common elements of the Association.

The Association had a reserve study prepared to determine the estimated remaining useful lives of the common element components and the estimated replacement costs. Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common area components. Actual expenditures may vary from the estimated future expenditures and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association may levy additional assessments or special assessments against the unit owners, provided that the assessments shall have the assent of two-thirds (2/3) of the votes of the members of the Association.

The unaudited supplementary information on page 11 is based on a reserve study conducted by Property Diagnostics, Inc. in 2010. A funding appropriation of \$7,500 has been included in the 2014 budget.

DORAL HOMEOWNERS ASSOCIATION  
 SUPPLEMENTARY INFORMATION ABOUT FUTURE MAJOR REPAIRS AND REPLACEMENTS  
 DECEMBER 31, 2013  
 (UNAUDITED)

Property Diagnostics, Inc. conducted a study in 2010 to estimate the remaining useful lives and the replacement/repair costs of the components of common property. The following table is based on the study, and presents significant information about the components of common property. A funding appropriation of \$7,500 has been included in the 2014 budget, which is more than the \$4,000 recommended in the study.

<u>COMPONENTS</u>	Estimated Remaining Useful Lives (Years)	Estimated Replace- ment cost
Asphalt	7	\$ 9,708
Asphalt seal coat	0	1,011
Concrete curbs	19	34,326
Concrete walk	19	32,912
Concrete aprons	19	1,900
Wood retaining wall, TH	5	3,808
Trash area fences	7	1,540
Wood retaining wall	9	7,224
Asphalt path	5	5,310
Entrance monument brick	26	17,400
Entrance monument lamps	7	900
Entrance monument letters	4	2,600
Wood retaining wall fence	9	<u>1,548</u>
 TOTALS		 <u>\$ 120,187</u>

At December 31, 2013 cash held in the checking and money market designated for the replacement fund totaled \$28,912.