

DORAL HOMEOWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2011 and 2010

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Board of Directors
Doral Homeowners Association
Silver Spring, Maryland

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheets of Doral Homeowners Association as of December 31, 2011 and 2010, and the related statements of revenue, expenses and appropriations - operating fund, schedules of expenses, changes in association equity and cash flows for the years 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 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 audits 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 audits provide 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 Doral Homeowners Association as of December 31, 2011 and 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on future major repairs and replacements on page 10 is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. 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. 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.

March 25, 2012

Singleton & Bardowski LLC

DORAL HOMEOWNERS ASSOCIATION
BALANCE SHEETS

	DECEMBER 31,	
	<u>2011</u>	<u>2010</u>
ASSETS		
Operating Fund:		
Cash - checking	\$ 18,620	\$ 12,296
Assessments receivable (Note 1)	3,605	3,654
Prepaid insurance	<u>354</u>	<u>322</u>
Total Operating Fund	<u>22,579</u>	<u>16,272</u>
Replacement fund:		
Cash and investments (Note 2)	<u>2,880</u>	<u>768</u>
TOTAL ASSETS	<u>\$ 25,459</u>	<u>\$ 17,040</u>
 LIABILITIES		
Operating fund:		
Accounts payable	\$ 1,507	\$ 5,901
Prepaid assessments	<u>14,098</u>	<u>12,609</u>
Total Operating Fund Liabilities	<u>15,605</u>	<u>18,510</u>
 ASSOCIATION EQUITY (Note 4)		
Retained earnings (deficit)	6,974	(2,238)
Operating reserve	768	768
Replacement fund reserve	<u>2,112</u>	<u>-</u>
Total Association Equity (deficit)	<u>9,854</u>	<u>(1,470)</u>
TOTAL LIABILITIES AND ASSOCIATION EQUITY	<u>\$ 25,459</u>	<u>\$ 17,040</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>2011</u>	<u>2011</u>	<u>2010</u>
REVENUE:			
Assessments (Note 1)	\$ 65,016	\$ 65,016	\$ 65,016
Less: replacement fund appropriations	(15,000)	(4,000)	(4,000)
Interest	2	200	1,033
Less: interest contr. reserves	(2)	(200)	(1,033)
Late fees	-	-	35
ARC income	2,600	-	2,500
Legal fees collected	13,926	-	-
Recovery of bad debt	5,149	-	-
Miscellaneous income	90	-	-
Total Revenue	<u>71,781</u>	<u>61,016</u>	<u>63,551</u>
EXPENSES (Schedule A):			
Utilities	272	475	308
Service contracts	30,604	36,707	32,229
Operating expenses	5,950	8,000	2,200
General & administrative	23,442	13,498	30,794
Taxes & insurance	<u>2,301</u>	<u>2,336</u>	<u>2,380</u>
Total Expenses	<u>62,569</u>	<u>61,016</u>	<u>67,911</u>
EXCESS REVENUE (EXPENSES)	<u>\$ 9,212</u>	<u>\$ -</u>	<u>\$ (4,360)</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,

	<u>ACTUAL</u> <u>2011</u>	<u>BUDGET</u> <u>2011</u>	<u>ACTUAL</u> <u>2010</u>
UTILITIES:			
Electric	\$ 272	\$ 475	\$ 308
SERVICE CONTRACTS:			
Management	8,039	8,039	7,969
Grounds maintenance	10,467	15,360	12,859
Trash removal	10,792	11,458	9,966
Snow removal	766	1,000	1,435
Storm water maintenance	540	850	-
Total Service Contracts	<u>30,604</u>	<u>36,707</u>	<u>32,229</u>
OPERATING EXPENSES:			
Tree maintenance	2,515	1,000	1,050
Maintenance & repairs	3,435	7,000	1,150
Total Operating Expenses	<u>5,950</u>	<u>8,000</u>	<u>2,200</u>
GENERAL & ADMINISTRATIVE:			
Administrative support	770	800	916
Auditing	2,200	2,200	2,170
Bad debt expense	-	-	3,899
Assessment discount	515	823	641
Postage	1,069	1,200	1,836
Coupon printing	760	525	770
Printing & reproduction	1,758	2,450	2,721
Legal	13,873	4,000	17,368
Mont. County annual fees	474	500	473
Website development	2,023	1,000	-
Total General & Administrative	<u>23,442</u>	<u>13,498</u>	<u>30,794</u>
TAXES & INSURANCE:			
Insurance	<u>2,301</u>	<u>2,336</u>	<u>2,380</u>
TOTAL OPERATING EXPENSES	<u>\$ 62,569</u>	<u>\$ 61,016</u>	<u>\$ 67,911</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, 2010 AND 2011

	<u>TOTAL</u>	<u>RETAINED EARNINGS OPER-FUND</u>	<u>OPER- ATING RESERVE</u>	<u>REPLACE- MENT FUND RESERVE</u>
Balances January 1, 2010	\$ 64,627	\$ 4,622	\$ 3,000	\$ 57,005
Excess Revenue (Expenses)	(4,360)	(4,360)	-	-
Replacement fund reserve appropriations:				
Budgeted	4,000	-	-	4,000
Interest	1,033	-	-	1,033
Replacement fund expenses:				
Bank fees	(90)	-	-	(90)
Asphalt	(16,977)	-	-	(16,977)
Reserve study	(1,200)	-	-	(1,200)
Landscaping	(22,475)	-	-	(22,475)
Trash enclosure	(24,610)	-	-	(24,610)
Miscellaneous repairs	(1,418)	-	-	(1,418)
Equity transfer	<u>-</u>	<u>(2,500)</u>	<u>(2,232)</u>	<u>4,732</u>
Balances December 31, 2010	(1,470)	(2,238)	768	-
Excess Revenue (Expenses)	9,212	9,212	-	-
Replacement fund reserve appropriations:				
Budgeted	4,000	-	-	4,000
Additional	11,000	-	-	11,000
Interest	2	-	-	2
Replacement fund expenses:				
Bank fees	(60)	-	-	(60)
Sidewalk	<u>(12,830)</u>	<u>-</u>	<u>-</u>	<u>(12,830)</u>
Balances December 31, 2011	<u>\$ 9,854</u>	<u>\$ 6,974</u>	<u>\$ 768</u>	<u>\$ 2,112</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>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess revenue (expenses)	\$ 9,212	\$ (4,360)
Adjustments to reconcile excess revenue (expenses) to net cash provided by operating activities:		
Replacement fund appropriations	15,002	5,033
Replacement fund expense	(12,890)	(66,770)
Changes in Assets and Liabilities:		
Decrease (increase) in:		
Accounts receivable	49	2,918
Prepaid expenses	(32)	67
Increase (decrease) in:		
Payables	(4,394)	3,768
Prepaid assessments	1,489	807
Net Cash Provided by (Used in) Operating Activities	<u>(8,436)</u>	<u>(58,537)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Certificate matured	-	28,036
Interest rolled into investments	-	(962)
Net Cash Provided by (Used in) Investing Activities	<u>-</u>	<u>27,074</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,436)	(31,463)
CASH AND EQUIVALENTS AT BEGINNING OF THE YEAR	<u>13,064</u>	<u>44,527</u>
CASH AND EQUIVALENTS AT END OF YEAR	<u>\$ 21,500</u>	<u>\$ 13,064</u>
<u>SUMMARY OF CASH ACCOUNTS</u>		
Checking, page 2	\$ 18,620	\$ 12,296
Money market, page 8	2,880	768
Total	<u>\$ 21,500</u>	<u>\$ 13,064</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 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 March 25, 2012, 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, 2011.

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.

DORAL HOMEOWNERS ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

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 2011 was \$0 and 2010 was \$3,899. The Association has provided for the assessments that may be uncollectible as follows:

	<u>2011</u>	<u>2010</u>
Assessments receivable, owners	\$ 3,605	\$11,053
Provision for doubtful accounts	-	(7,399)
Net assessments receivable	<u>\$ 3,605</u>	<u>\$ 3,654</u>

Monthly assessments to owners were \$34.00 for single family units and \$38.00 for townhouse units in 2011. Of those amounts \$7.84 for single family units and \$8.77 for townhouse units was designated to the replacement fund reserve in 2011. The annual budget and assessments of owners are determined by the Board of Directors. The Association retains excess operating funds at the end of the operating year for use in the operating fund.

NOTE 2. CASH AND INVESTMENTS

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

<u>Institution</u>	<u>Maturity</u> <u>Date</u>	<u>Int. %</u>	<u>Value</u> <u>12/31/11</u>	<u>Value</u> <u>12/31/10</u>
Suntrust, MM	demand	0.05%	\$ 2,880	\$ 768

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 or as an ordinary membership organization taxable as a corporation. As an exempt homeowners association, the Association's net assessment income is exempt from income tax, but its interest income is taxed at 30%.

DORAL HOMEOWNERS ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3. INCOME TAXES (CONTINUED)

Electing to file as a corporation, 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 2011 the income taxes were calculated using the exempt homeowner's association method, resulting in no income tax expense.

The Association recognizes tax benefits only to the extent that the Association believes it is "more likely than not" that its tax positions will be sustained upon examination by the taxing authorities. 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. The Association's income tax returns for 2009, 2010 and 2011 are subject to possible federal and state examination, generally for three years after they are filed.

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 10 is based on a reserve study conducted by Property Diagnostics, Inc. in 2010. A funding appropriation of \$7,500 has been included in the 2012 budget.

DORAL HOMEOWNERS ASSOCIATION
 SUPPLEMENTARY INFORMATION ABOUT FUTURE MAJOR REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2011
 (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 2012 budget, which is more than the \$3,584 recommended in the study.

<u>COMPONENTS</u>	Estimated Remaining Useful Lives (Years)	Estimated Replace- ment cost
Asphalt	9	\$ 9,708
Asphalt seal coat	0	1,011
Concrete curbs	21	34,326
Concrete walk	21	32,912
Concrete aprons	21	1,900
Wood retaining wall, TH	4	3,808
Trash area fences	9	1,540
Wood retaining wall	11	7,224
Asphalt path	7	5,310
Entrance monument brick	28	17,400
Entrance monument lamps	9	900
Entrance monument letters	6	2,600
Wood retaining wall fence	11	<u>1,548</u>
 TOTALS		 <u>\$ 120,187</u>

At December 31, 2011 cash held in the money market designated for the replacement fund totaled \$2,112.