

DORAL HOMEOWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2010 and 2009

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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, 2010 and 2009, 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, 2010 and 2009, 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 19, 2011

Singleton & Bardowski LLC

DORAL HOMEOWNERS ASSOCIATION
BALANCE SHEETS

	DECEMBER 31,	
	<u>2010</u>	<u>2009</u>
ASSETS		
Operating Fund:		
Cash - checking	\$ 12,296	\$ 11,670
Assessments receivable (Note 1)	3,654	6,497
Prepaid insurance	<u>322</u>	<u>389</u>
Total Operating Fund	<u>16,272</u>	<u>18,556</u>
 Replacement fund:		
Cash and investments (Note 2)	<u>768</u>	<u>60,006</u>
 TOTAL ASSETS	 <u>\$ 17,040</u>	 <u>\$ 78,562</u>
 <u>LIABILITIES</u>		
Operating fund:		
Accounts payable	\$ 5,901	\$ 2,133
Prepaid assessments	<u>12,609</u>	<u>11,802</u>
Total Operating Fund Liabilities	<u>18,510</u>	<u>13,935</u>
 <u>ASSOCIATION EQUITY (Note 4)</u>		
Retained earnings (deficit)	(2,238)	4,622
Operating reserve	768	3,000
Replacement fund reserve	<u>-</u>	<u>57,005</u>
Total Association Equity (deficit)	<u>(1,470)</u>	<u>64,627</u>
 TOTAL LIABILITIES AND ASSOCIATION EQUITY	 <u>\$ 17,040</u>	 <u>\$ 78,562</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>2010</u>	<u>2010</u>	<u>2009</u>
REVENUE:			
Assessments (Note 1)	\$ 65,016	\$ 65,016	\$ 81,360
Less: replacement fund appropriations	(4,000)	(4,500)	(4,500)
Interest income	1,033	350	1,445
Less: interest contr. reserves	(1,033)	(350)	(1,445)
ARC income	2,500	-	6,624
Late fees	35	-	43
Total Revenue	<u>63,551</u>	<u>60,516</u>	<u>83,527</u>
EXPENSES (Schedule A):			
Utilities	308	475	405
Service contracts	32,229	33,956	46,687
Operating expenses	2,200	4,350	3,898
General & administrative	30,794	19,285	39,493
Taxes & insurance	2,380	2,450	2,301
Total Expenses	<u>67,911</u>	<u>60,516</u>	<u>92,784</u>
EXCESS REVENUE (EXPENSES)	<u>\$ (4,360)</u>	<u>\$ -</u>	<u>\$ (9,257)</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>2010</u>	<u>BUDGET</u> <u>2010</u>	<u>ACTUAL</u> <u>2009</u>
UTILITIES:			
Electric	\$ 308	\$ 475	\$ 405
SERVICE CONTRACTS:			
Management	7,969	7,656	13,795
Grounds maintenance	12,859	14,000	18,500
Trash removal	9,966	10,450	9,951
Snow removal	1,435	1,000	3,391
Storm water maintenance	-	850	1,050
Total Service Contracts	<u>32,229</u>	<u>33,956</u>	<u>46,687</u>
OPERATING EXPENSES:			
Tree maintenance	1,050	2,000	2,880
Landscaping non-contract	-	-	608
Maintenance & repairs	1,150	2,350	410
Total Operating Expenses	<u>2,200</u>	<u>4,350</u>	<u>3,898</u>
GENERAL & ADMINISTRATIVE:			
Administrative support	916	650	872
Auditing	2,170	2,260	2,150
Bad debt expense	3,899	2,400	3,500
Assessment discount	641	250	244
Postage	1,836	2,100	1,932
Coupon printing	770	775	775
Printing & reproduction	2,721	2,450	2,293
Legal	17,368	8,000	22,547
Mont. County annual fees	473	400	472
Consultant fees	-	-	4,708
Total General & Administrative	<u>30,794</u>	<u>19,285</u>	<u>39,493</u>
TAXES & INSURANCE:			
Insurance	<u>2,380</u>	<u>2,450</u>	<u>2,301</u>
TOTAL OPERATING EXPENSES	<u>\$ 67,911</u>	<u>\$ 60,016</u>	<u>\$ 92,784</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, 2009 AND 2010

	<u>TOTAL</u>	<u>RETAINED EARNINGS OPER-FUND</u>	<u>OPER- ATING RESERVE</u>	<u>REPLACE- MENT FUND RESERVE</u>
Balances January 1, 2009	\$ 68,900	\$ 13,879	\$ 3,000	\$ 52,021
Excess Revenue (Expenses)	(9,257)	(9,257)	-	-
Replacement fund expense	(961)	-	-	(961)
Replacement fund reserve appropriations:				
Budgeted	4,500	-	-	4,500
Interest	<u>1,445</u>	<u>-</u>	<u>-</u>	<u>1,445</u>
Balances December 31, 2009	64,627	4,622	3,000	57,005
Excess Revenue (Expenses)	(4,360)	(4,360)	-	-
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)
Replacement fund reserve appropriations:				
Budgeted	4,000	-	-	4,000
Interest	1,033	-	-	1,033
Equity transfer	<u>-</u>	<u>(2,500)</u>	<u>(2,232)</u>	<u>4,732</u>
Balances December 31, 2010	<u>\$ (1,470)</u>	<u>\$ (2,238)</u>	<u>\$ 768</u>	<u>\$ -</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>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess revenue (expenses)	\$ (4,360)	\$ (9,257)
Adjustments to reconcile excess revenue (expenses) to net cash provided by operating activities:		
Replacement fund appropriations	5,033	5,945
Replacement fund expense	(66,770)	(961)
Changes in Assets and Liabilities:		
Decrease (increase) in:		
Accounts receivable	2,918	(2,192)
Prepaid expenses	67	(35)
Increase (decrease) in:		
Payables	3,768	958
Prepaid assessments	807	(4,956)
Net Cash Provided by (Used in) Operating Activities	<u>(58,537)</u>	<u>(10,498)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Certificate matured	28,036	-
Interest rolled into investments	<u>(962)</u>	<u>(1,116)</u>
Net Cash Provided by (Used in) Investing Activities	<u>27,074</u>	<u>(1,116)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(31,463)	(11,614)
CASH AND EQUIVALENTS AT BEGINNING OF THE YEAR	<u>44,527</u>	<u>56,141</u>
CASH AND EQUIVALENTS AT END OF YEAR	<u>\$ 13,064</u>	<u>\$ 44,527</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash paid during the year for:		
Income taxes	<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 19, 2011, 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, 2010.

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

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 2010 was \$3,899 and 2009 was \$3,500. The Association has provided for the assessments that may be uncollectible as follows:

	<u>2010</u>	<u>2009</u>
Assessments receivable, owners	\$11,053	\$ 9,997
Provision for doubtful accounts	<u>(7,399)</u>	<u>(3,500)</u>
Net assessments receivable	<u>\$ 3,654</u>	<u>\$ 6,497</u>

Monthly assessments to owners were \$34.00 for single family units, and \$38.00 for townhouse units in 2010. Of those amounts \$2.09 for single family units and \$2.34 for townhouse units was designated to the replacement fund reserve in 2010. 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 Date</u>	<u>Int %</u>	<u>Value 12/31/10</u>	<u>Value 12/31/09</u>
Suntrust, MM	demand	0.16%	\$ 768	\$ 32,857
Suntrust, CD	10/07/10	4.21%	-	27,074
Accrued interest on CD			-	75
Total Cash and Investments			<u>\$ 768</u>	<u>\$ 60,006</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.

DORAL HOMEOWNERS ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS

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%.

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 2010 the income taxes were calculated using the exempt homeowner's association method, resulting in no income tax expense.

NOTE 4. ASSOCIATION EQUITY

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

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

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

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 \$4,000 has been included in the 2011 budget.

DORAL HOMEOWNERS ASSOCIATION
 SUPPLEMENTARY INFORMATION ABOUT FUTURE MAJOR REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2010
 (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.

<u>COMPONENTS</u>	Estimated Remaining Useful Lives (Years)	Estimated Replace- ment cost
Asphalt	10	\$ 9,708
Asphalt seal coat	1	1,011
Concrete curbs	22	34,326
Concrete walk	22	32,912
Concrete aprons	22	1,900
Wood retaining wall, TH	5	3,808
Trash area fences	10	1,540
Wood retaining wall	12	7,224
Asphalt path	8	5,310
Entrance monument brick	29	17,400
Entrance monument lamps	10	900
Entrance monument letters	7	2,600
Wood retaining wall fence	12	<u>1,548</u>
 TOTALS		 <u>\$ 120,187</u>

At December 31, 2010 cash held in money markets, and other investments designated for the replacement fund totaled \$0. During 2010, \$2,500 was borrowed from operating cash to pay for replacement fund reserve expenses. It is the Association's intention to repay the operating account for the amount borrowed using funds received from a delinquent homeowner received in 2011.