

DORAL HOMEOWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2016 AND 2015

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance Sheets	3
Statements of Revenues and Expenses	4
Statements of Changes in Members' Equity	5
Statements of Cash Flows	6
Notes to Financial Statements	7
SUPPLEMENTARY INFORMATION	
Supplementary Information on Operating Budget	11
Supplementary Information on Future Major Repairs and Replacements (Unaudited)	12

DALY, HAMAD & ASSOCIATES, P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS
MEMBERS, AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
DORAL HOMEOWNERS ASSOCIATION, INC.

Report on the Financial Statements

We have audited the accompanying financial statements of Doral Homeowners Association, Inc., which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of revenues and expenses, changes in members' 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 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 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, Inc. as of December 31, 2016 and 2015, 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.

Report on Supplementary Information

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule reflected on pages 11 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of the Association and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 12 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.



DALY, HAMAD & ASSOCIATES, P.L.L.C.
January 8, 2018

DORAL HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEETS

ASSETS

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash - Operating	\$ 52,553	\$ 64,964
Cash and Cash Equivalents - Savings	41,473	41
Assessments Receivable - Net	1,702	2,428
Prepaid Expenses	1,222	171
	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 96,950</u>	<u>\$ 67,604</u>

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES		
Accounts Payable	\$ 4,302	\$ 2,550
Prepaid Assessments	14,922	18,654
	<u> </u>	<u> </u>
Total Liabilities	<u>19,224</u>	<u>21,204</u>
MEMBERS' EQUITY		
Replacement Reserves	41,473	(1,320)
Undesignated Equity	36,253	47,720
	<u> </u>	<u> </u>
TOTAL MEMBERS' EQUITY	<u>77,726</u>	<u>46,400</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 96,950</u>	<u>\$ 67,604</u>

DORAL HOMEOWNERS ASSOCIATION, INC.

STATEMENTS OF REVENUES AND EXPENSES

	<u>Year Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
REVENUES		
Member Assessments	\$ 77,760	\$ 74,436
Assessment Discount	(264)	(564)
Interest Income	68	68
Late Fees and Other Income	4,521	606
	<u>82,085</u>	<u>74,546</u>
TOTAL REVENUES		
	<u>82,085</u>	<u>74,546</u>
Less: Assessments to Reserves	(10,824)	(7,500)
Interest Income to Reserves	(14)	(5)
	<u>71,247</u>	<u>67,041</u>
REVENUES AVAILABLE FOR OPERATIONS		
	71,247	67,041
EXPENSES		
Grounds Maintenance Contract	13,871	12,800
Trash Removal	9,966	9,966
Management Fees	9,669	8,584
Administrative	5,389	4,977
Audit and Legal Fees	5,245	5,703
Insurance	2,179	2,656
Snow Removal	1,523	1,501
Repairs and Maintenance	1,026	5,400
Fees and Licenses	790	474
Tree Maintenance	695	-
Utilities	361	341
Storm Water Contract	-	2,250
	<u>50,714</u>	<u>54,652</u>
TOTAL EXPENSES		
	<u>50,714</u>	<u>54,652</u>
EXCESS OF REVENUES OVER EXPENSES		
	<u>\$ 20,533</u>	<u>\$ 12,389</u>

DORAL HOMEOWNERS ASSOCIATION, INC.

STATEMENTS OF CHANGES IN MEMBERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>Operating Reserves</u>	<u>Replacement Reserves</u>	<u>Undesignated Equity/ (Deficit)</u>	<u>Total</u>
Members' Equity - December 31, 2014	\$ 768	\$ 18,202	35,331	\$ 53,533
Excess of Revenues Over Expenses			12,389	12,389
Assessments to Reserves		7,500		7,500
Interest Income to Reserves		5		5
Reserve Expenditures		(27,795)		(27,795)
Inter-Equity Transfer	(768)	768	-	768
Members' Equity - December 31, 2015	-	(1,320)	47,720	46,400
Excess of Revenues Over Expenses			20,533	20,533
Assessments to Reserves		10,824		10,824
Interest Income to Reserves		14		14
Bank Fees		(45)		(45)
Reserve Expenditures		-		-
Inter-Equity Transfer	-	32,000	(32,000)	-
Members' Equity -December 31, 2016	<u>\$ -</u>	<u>\$ 41,473</u>	<u>\$ 36,253</u>	<u>\$ 77,726</u>

DORAL HOMEOWNERS ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of Revenues Over Expenses	\$ 20,533	\$ 12,389
Adjustments to Reconcile Excess Revenues Over Expenses to Net Cash Provided by (Used in) Operating Activities		
Assessments Collected for Reserves	10,824	7,500
Interest Income to Reserves	14	5
Reserve Expenditures/Bank Fees	(45)	(27,795)
Change in:		
Assessments Receivable - Net	726	(1,308)
Prepaid Expenses	(1,051)	183
Accounts Payable and Other	1,752	463
Prepaid Assessments	(3,732)	3,675
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	29,021	(4,888)
NET INCREASE (DECREASE) IN CASH	29,021	(4,888)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	65,005	69,893
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 94,026	\$ 65,005
 SUMMARY OF CASH ACCOUNTS:		
Cash - Operating	\$ 52,553	\$ 64,964
Cash and Cash Equivalents - Savings	41,473	41
	\$ 94,026	\$ 65,005
 SUPPLEMENTAL DISCLOSURES		
Income Taxes Paid	\$ -	\$ -

DORAL HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 1 – NATURE OF ORGANIZATION

Doral Homeowners Association, Inc. (the Association), was incorporated on July 11, 1988 under the laws of the state of Maryland for the purposes of operating and maintaining the common property of the Association. The Association is a non-profit, non-stock corporation located in Silver Spring, Maryland and consists of 137 single family homes and 20 townhouse units.

NOTE 2 – DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through January 8, 2018, the date that the financial statements were available to be issued.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Method of Presentation

The financial statements are prepared using the accrual method of accounting in accordance with generally accepted accounting principles. Under this basis, revenue is recognized when earned and expenses are recognized when incurred.

Fund Accounting

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

Member Assessments

Association members are subject to assessments to provide funds for the Association's operating expenses, future capital acquisitions and major repairs and replacements. The Association's policy is to retain legal counsel and place liens, where appropriate, on the units of the members whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in future years. Monthly assessments to owners were \$40.00 and \$39.00, respectively, for single family units and \$50.00 and \$43.00, respectively, for townhouse units in 2016 and 2015.

Common Property

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

DORAL HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association includes all cash accounts, which are not subject to withdrawal restrictions or significant penalties, as cash and cash equivalents on the accompanying balance sheet.

NOTE 4 - CASH AND INVESTMENTS - SAVINGS

As of December 31, 2016 and 2015, the Association maintained its funds in the following manner:

	Account Type	December 31,	
		2016	2015
Suntrust Bank	MMkt	\$ 41,473	\$ 41

NOTE 5 – ASSESSMENTS RECEIVABLE - NET

The Association provides an allowance for losses on assessments receivable based on a review of the current status of existing receivables and management's evaluation of periodic aging of accounts. Under the allowance method, collection efforts may continue, and the recovery of amounts previously written off is recognized as income in the year of collection. The Association considers all receivables as collectible at year-end.

	December 31,	
	2016	2015
Assessments Receivable	\$ 1,702	\$ 2,428
Less: Allowance for Doubtful Accounts	-	-
	<u>\$ 1,702</u>	<u>\$ 2,428</u>

NOTE 6 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$41,473 and \$41, at December 31, 2016 and 2015, respectively, are held in separate cash/ investment accounts and are generally not available for normal operations..

DORAL HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 6 – FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

The Association engaged a reserve specialist to conduct a study in 2010 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of replacement cost, considering amounts previously designated for future repairs and replacements. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts designated for future repairs and replacements may not be adequate to meet future needs. If additional funds are needed, the Association has the right, subject to membership approval, to increase the regular assessments, levy special assessments, or delay major repairs and replacements until funds are available.

For 2016 and 2015, the Association budgeted assessments to replacement reserves of \$10,824 and \$7,500, respectively.

As of December 31, 2016, the Association had designated \$41,473 for replacement reserves which were fully funded at December 31, 2016.

During 2016 and 2015, the Association incurred the following reserve expenditures:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Sidewalk Drainage	\$ -	\$ 22,440
Landscaping	-	5,175
Bank Fees	-	180
	<u>\$ -</u>	<u>\$ 27,795</u>

NOTE 7 – INCOME TAXES

The Association may elect annually to be taxed either as a homeowner's association or as a regular corporation. For the year ended December 31, 2016, the Association was taxed as a homeowner's Association, in accordance with Internal Revenue Code Section 528. Under that section, the Association is not taxed on its membership income, but is taxed only on its non-membership income, such as interest earnings.

The Association's federal and state income tax returns are generally subject to examination by taxing authorities for three years after the returns are filed, and the Association's federal and state income tax returns for 2013, 2014 and 2015 remain open to examination.

NOTE 8 – INTER-EQUITY TRANSFER

During March 2016, the Board of Directors approved an inter-equity transfer to increase the reserve fund balance by \$32,000 and to increase undesignated equity by \$32,000.

SUPPLEMENTARY INFORMATION

DORAL HOMEOWNERS ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION ON OPERATING BUDGET

DECEMBER 31, 2016 AND 2015

The schedule of December 31, 2016 actual revenues and expenses compared to the December 31, 2016 operating budget is shown below:

	<u>2016</u> <u>ACTUAL</u>	<u>2016</u> <u>BUDGET</u>
REVENUES		
Member Assessments	\$ 77,760	\$ 77,760
Assessment Discount	(264)	-
Interest Income	68	25
Late Fees and Other Income	4,521	-
	<u>82,085</u>	<u>77,785</u>
TOTAL REVENUES		
Less: Assessments to Reserves	(10,824)	(10,824)
Interest Income to Reserves	(14)	(25)
	<u>71,247</u>	<u>66,936</u>
REVENUES AVAILABLE FOR OPERATIONS		
EXPENSES		
Grounds Maintenance Contract	13,871	13,500
Trash Removal	9,966	11,500
Management Fees	9,669	8,864
Administrative	5,389	7,430
Audit and Legal Fees	5,245	5,827
Insurance	2,179	2,450
Snow Removal	1,523	1,000
Repairs and Maintenance	1,026	6,000
Fees and Licenses	790	500
Tree Maintenance	695	2,565
Utilities	361	350
Storm Water Contract	-	600
Bad Debts	-	850
Unanticipated Project	-	5,500
	<u>50,714</u>	<u>66,936</u>
TOTAL EXPENSES		
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 20,533</u>	<u>\$ -</u>

DORAL HOMEOWNERS ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)

DECEMBER 31, 2016 AND 2015

An independent engineer conducted a study in 2010 to estimate the remaining useful lives and the replacement costs of the common property components. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following information is based on the 2010 study and presents significant information about the components of common property.

<u>Components</u>	<u>2010 Estimated Remaining Useful Lives (Yrs.)</u>	<u>2010 Estimated Replacement Costs</u>
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>