

POTOMAC CROSSING HOMEOWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2011 AND 2010

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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
POTOMAC CROSSING HOMEOWNERS ASSOCIATION, INC.

We have audited the accompanying balance sheets of Potomac Crossing Homeowners Association, Inc., as of December 31, 2011 and 2010, and the related statements of revenues and expenses, changes in members' 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 audit 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 Potomac Crossing Homeowners Association, Inc. as of December 31, 2011 and 2010, 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.

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements 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 the 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.
September 10, 2012

POTOMAC CROSSING HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEETS

ASSETS

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
ASSETS		
Cash - Operating	\$ 17,561	\$ 16,528
Cash and Cash Equivalents - Savings	221,606	206,481
Assessments Receivable - Net	2,571	3,341
Interest Receivable	939	1,130
Prepaid Expenses	<u>1,485</u>	<u>1,859</u>
TOTAL ASSETS	<u>\$ 244,162</u>	<u>\$ 229,339</u>

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES		
Accounts Payable	\$ 1,525	\$ 3,849
Prepaid Assessments	<u>4,726</u>	<u>4,732</u>
Total Liabilities	<u>6,251</u>	<u>8,581</u>
MEMBERS' EQUITY		
Funds Designated for Future Repairs and Replacements	166,743	153,503
Undesignated Equity	<u>71,168</u>	<u>67,255</u>
TOTAL MEMBERS' EQUITY	<u>237,911</u>	<u>220,758</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 244,162</u>	<u>\$ 229,339</u>

POTOMAC CROSSING HOMEOWNERS ASSOCIATION, INC.

STATEMENTS OF REVENUES AND EXPENSES

	<u>Year Ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
REVENUES		
Member Assessments	\$ 133,551	\$ 128,430
Interest Income	4,899	5,120
Late Fees and Other Income	4,085	2,088
	<hr/>	<hr/>
TOTAL REVENUES	142,535	135,638
Less: Assessments to Reserves	(10,200)	(10,200)
Interest Income to Reserves	(5,090)	(5,120)
	<hr/>	<hr/>
REVENUES AVAILABLE FOR OPERATIONS	127,245	120,318
	<hr/>	<hr/>
EXPENSES		
Grounds Maintenance	36,780	35,091
Management Fees	31,714	30,861
Trash Removal	16,871	16,869
Administrative	7,917	5,155
Snow Removal	7,770	14,710
Audit and Legal	6,087	2,359
Insurance	3,981	4,296
Repairs and Maintenance	3,243	975
Landscaping	2,741	-
Water Quality Protection Fee	1,997	2,986
Bad Debts	1,516	-
Electricity	1,360	1,576
Social	981	856
Federal and State Income Taxes	374	422
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TOTAL EXPENSES	123,332	116,156
	<hr/>	<hr/>
EXCESS OF REVENUES OVER EXPENSES	\$ 3,913	\$ 4,162
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POTOMAC CROSSING HOMEOWNERS ASSOCIATION, INC.

STATEMENTS OF CHANGES IN MEMBERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Designated for Future Repairs and Replacements	Undesignated Equity/(Deficit)	Total
Members' Equity - December 31, 2009	\$ 151,013	\$ 63,093	\$ 214,106
Excess of Revenues Over Expenses		4,162	4,162
Assessments to Reserves	10,200		10,200
Interest Income to Reserves	5,120		5,120
Reserve Expenditures	(12,830)		(12,830)
	<hr/>	<hr/>	<hr/>
Members' Equity - December 31, 2010	153,503	67,255	220,758
Excess of Revenues Over Expenses		3,913	3,913
Assessments to Reserves	10,200		10,200
Interest Income to Reserves	5,090		5,090
Reserve Expenditures	(2,050)		(2,050)
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Members' Equity - December 31, 2011	<u>\$ 166,743</u>	<u>\$ 71,168</u>	<u>\$ 237,911</u>

POTOMAC CROSSING HOMEOWNERS ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of Revenues Over Expenses	\$ 3,913	\$ 4,162
Adjustments to Reconcile Excess Revenues Over Expenses to Net Cash Provided by Operating Activities		
Assessments Collected for Reserves	10,200	10,200
Interest Income to Reserves	5,090	5,120
Reserve Expenditures	(2,050)	(12,830)
Change in:		
Assessments Receivable - Net	770	51
Prepaid Expenses	374	422
Interest Receivable	191	39
Accounts Payable	(2,324)	2,204
Prepaid Assessments	(6)	(5,900)
NET CASH PROVIDED BY OPERATING ACTIVITIES	16,158	3,468
NET INCREASE IN CASH	16,158	3,468
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	223,009	219,541
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 239,167	\$ 223,009
 SUMMARY OF CASH ACCOUNTS:		
Cash - Operating	\$ 17,561	\$ 16,528
Cash and Cash Equivalents - Savings	221,606	206,481
	\$ 239,167	\$ 223,009
 SUPPLEMENTAL DISCLOSURES		
Income Taxes Paid	\$ -	\$ -

POTOMAC CROSSING HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 1 – NATURE OF ORGANIZATION

Potomac Crossing Homeowners Association, Inc. (the Association), was incorporated on July 1, 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 located in Potomac, Maryland and consists of 76 townhomes and 208 single-family homes. The Association administers the community's operations.

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 September 10, 2012, 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.

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.

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 are owned by the individual unit owners in common and 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.

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.

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.

POTOMAC CROSSING HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 4 – CASH SAVINGS

The Association held the following cash savings accounts:

	Account Type	December 31,	
		2011	2010
Community Association Banc	MMkt	\$ 84,074	\$ 51,960
Smith Barney	MMkt	4,094	3,978
Smith Barney- Various CDs	CD(6)	111,694	107,694
Community Association Banc	CD	21,744	42,849
		<u>\$ 221,606</u>	<u>\$ 206,481</u>

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.

	December 31,	
	2011	2010
Assessments Receivable	\$ 3,890	\$ 3,341
Less: Allowance for Doubtful Accounts	<u>(1,319)</u>	<u>0</u>
	<u>\$ 2,571</u>	<u>\$ 3,341</u>

NOTE 6 – 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, 2011, the Association was taxed as a regular corporation and filed Form 1120. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income, such as interest earnings, at regular federal and state corporate rates.

POTOMAC CROSSING HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 7 – 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 \$221,606 and \$206,481 at December 31, 2011 and 2010, respectively, are held in separate cash/investment accounts and are generally not available for operating purposes.

The Association had a replacement reserve study conducted by Miller Dodson Associates, Inc. during 2007 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 costs, 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 the Board's approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

For 2011 and 2010, the Association budgeted assessments to replacement reserves of \$10,200 and \$10,200, respectively. In addition, the Association allocated interest income of \$5,090 and \$5,120 for 2011 and 2010, respectively, to replacement reserves.

As of December 31, 2011 and 2010, the Association had designated \$166,743 and \$153,503, respectively, for replacement reserves. The designated reserves of \$166,743 were fully funded at December 31, 2011.

During 2011 and 2010, the Association incurred the following reserve expenditures:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Pavements and Sidewalks	\$ -	\$ 10,255
Playground	<u>2,050</u>	<u>2,575</u>
	<u>\$ 2,050</u>	<u>\$ 12,830</u>

SUPPLEMENTARY INFORMATION

POTOMAC CROSSING HOMEOWNERS ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)

DECEMBER 31, 2011 AND 2010

The Association had a replacement reserve study conducted by Miller Dodson Associates, Inc. during 2007 to estimate the useful lives and the replacement costs of components of the common property. Replacement costs were based on the estimated costs to repair or replace the common 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 2007 study and presents significant information about the components of common property.

<u>Components</u>	<u>2007 Estimated Remaining Useful Lives (Yrs)</u>	<u>2007 Estimated Replacement Costs</u>
General:		
Tot Lots	1-8	\$ 47,207
Composite Light Poles	11	8,750
Entrance Monuments Light Fixtures	10	1,000
Split Rail Fence at SWM Pond	5	9,503
Asphalt Trail	4-7	3,302
Townhouse:		
Concrete Sidewalks	0	22,993
Concrete Curbs and Gutters	3	30,560
Storm Sewer	0	15,000
Asphalt Pavement/Seal Coat, Teaneck	1-2	37,596
Asphalt Pavement/Seal Coat, Great Notch	2-3	<u>29,523</u>
TOTALS		<u>\$ 205,434</u>
Reserve Balance at December 31, 2011		<u>\$ 166,743</u>
2011 Assessments to Reserves		<u>\$ 10,200</u>