



Principals

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Donald E. Harris, CPA
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1801 Robert Fulton Drive, Suite 200
Reston, VA 20191

Managers

Jamie L. Brodnax, CPA
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Renee L. Watson, CPA

Independent Auditor's Report

Board of Directors
Cross Fox Condominium, Inc.
Columbia, Maryland

We have audited the accompanying Balance Sheet of the Cross Fox Condominium, Inc. as of October 31, 2010, and the related Statement of Income, Members' Equity and Cash Flows for the year then ended. These financial statements are the responsibility of the Association. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Cross Fox Condominium, Inc. as of October 31, 2010 were audited by other auditors whose report dated February 16, 2010 expressed an unqualified opinion on those statements.

We conducted our audit 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. 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 the Association, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Cross Fox Condominium, Inc. as of October 31, 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.

Cross Fox Condominium, Inc. raises funds for its operations and major repairs and replacements through assessment of its members. As of October 31, 2010, the Association had an assessments receivable balance of \$89,606 (before deducting the allowance for doubtful assessments of \$72,810). It is uncertain whether the receivables are actually collectible. The inability to collect owner assessments impacts adversely on the Association's viability. In order for the Association to maintain financial stability and to operate effectively, it must raise and be able to collect sufficient funds from its members to meet its operational and replacement reserve needs.

The supplementary information on future major repairs and replacements on pages 11 and 12 is not a required part of the basic financial statements of Cross Fox Condominium, Inc., but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Goldklang Group CPAs, P.C.

February 22, 2011

CROSS FOX CONDOMINIUM, INC.

BALANCE SHEET

OCTOBER 31, 2010

ASSETS

Cash and Cash Equivalents	\$ 458,560
Interest-Bearing Deposits	375,000
Assessments Receivable - Net	16,796
Accrued Interest	1,471
Income Taxes Receivable	220
Accounts Receivable - Gas	5,322
Prepaid Expenses	<u>142</u>
 Total Assets	 <u>\$ 857,511</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 26,160
Income Taxes Payable	147
Prepaid Assessments	<u>12,699</u>
Total Liabilities	<u>\$ 39,006</u>
 Snow Reserve	 \$ 40,000
Replacement Reserves	602,396
Unappropriated Members' Equity	<u>176,109</u>
Total Members' Equity	<u>\$ 818,505</u>
 Total Liabilities and Members' Equity	 <u>\$ 857,511</u>

See Accompanying Notes to Financial Statements

CROSS FOX CONDOMINIUM, INC.
STATEMENT OF INCOME
FOR THE YEAR ENDED OCTOBER 31, 2010

INCOME:

Assessments	\$ 664,428
Interest	15,287
Gas	163,677
Laundry	9,000
Other	<u>48,937</u>
Total Income	<u>\$ 901,329</u>

EXPENSES:

Management	\$ 62,868
Insurance	32,126
Legal, Audit and Tax Preparation	14,010
Office Supplies	3,857
Administrative	15,601
Cleaning Contract	42,939
Trash Removal	39,830
Landscaping	41,342
Snow Removal	52,686
Other Contracts	23,977
Utilities	230,594
Plumbing	12,074
Repairs and Maintenance	74,828
Recreation Equipment and Supplies	3,312
Bad Debt	78,373
Income Taxes	<u>2,527</u>
Total Expenses	<u>\$ 730,944</u>
Net Income before Contribution to Reserves	\$ 170,385
Contribution to Reserves	<u>(167,000)</u>
Net Income	<u>\$ 3,385</u>

See Accompanying Notes to Financial Statements

CROSS FOX CONDOMINIUM, INC.
STATEMENT OF MEMBERS' EQUITY
FOR THE YEAR ENDED OCTOBER 31, 2010

	<u>Snow Reserve</u>	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of October 31, 2009	\$ -	\$ 447,316	\$ 262,724	\$ 710,040
Additions:				
Contribution to Reserves		167,000		167,000
Net Income			3,385	3,385
Inter-Equity Transfer	40,000	50,000	(90,000)	
Deductions:				
Concrete		(32,096)		(32,096)
Roof		(876)		(876)
Exterior Building Façade		(9,522)		(9,522)
Plumbing		(3,085)		(3,085)
Electrical System		(1,633)		(1,633)
Hot Water Heater		(14,708)		(14,708)
Balance as of October 31, 2010	<u>\$ 40,000</u>	<u>\$ 602,396</u>	<u>\$ 176,109</u>	<u>\$ 818,505</u>

CROSS FOX CONDOMINIUM, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income	\$ 3,385
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Decrease (Increase) in:	
Assessments Receivable - Net	55,334
Accrued Interest	(337)
Income Taxes Receivable	481
Accounts Receivable - Gas	(5,322)
Prepaid Expenses	372
Increase (Decrease) in:	
Accounts Payable	1,490
Income Taxes Payable	147
Prepaid Assessments	(3,367)
Net Cash Flows from Operating Activities	<u>\$ 52,183</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Received from Assessments (Replacement Reserves)	\$ 167,000
Disbursed for Replacement Reserves Expenditures	(61,546)
Disbursed for Interest-Bearing Deposits	(375,000)
Net Cash Flows from Investing Activities	<u>\$ (269,546)</u>
Net Change in Cash and Cash Equivalents	\$ (217,363)

Cash and Cash Equivalents at Beginning of Year 675,923

Cash and Cash Equivalents at End of Year \$ 458,560

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash Paid for Income Taxes \$ 2,600

CROSS FOX CONDOMINIUM, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2010

NOTE 1 - NATURE OF OPERATIONS:

The Condominium is an association organized under the laws of the State of Maryland for the purposes of maintaining and preserving the common property of the Condominium. The Association administers the condominium operations and consists of 244 units located in Columbia, Maryland. The Association's Board of Directors administers the Condominium operations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

A) Method of Accounting - The Association's financial statements are prepared on the accrual method of accounting in which revenues are recognized when earned and expenses when incurred, not necessarily when received or paid.

B) 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. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent. Any excess assessments at year-end are retained by the Association for use in future years. The Association utilizes the allowance method to account for bad debt.

C) Common Property - Real property and common areas acquired from the declarant 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 not by the Association. Common property includes, but is not limited to, the exterior structures and mechanical equipment.

D) Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions. Such estimates affect the reported amounts of assets and liabilities. They also affect the 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.

E) Cash Equivalents - For purposes of the statement of cash flows, the Association considers all highly liquid investments and interest-bearing deposits with an original maturity date of three months or less to be cash equivalents.

NOTE 3 - REPLACEMENT RESERVES:

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are generally not available for expenditures from normal operations.

CROSS FOX CONDOMINIUM, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2010
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

The Association had a replacement reserve study conducted by Miller Dodson Associates, Inc. during 2008. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The study recommends a contribution of \$152,329 for fiscal year 2010. For fiscal year 2010 the Association budgeted to contribute \$167,000 to reserves.

Funds are being accumulated in replacement reserves based on estimates of future needs for repair and replacement of common property components. Actual expenditures may vary from the estimated future expenditures and the variations may be material; therefore, amounts accumulated in the replacement reserves may or may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Board of Directors, on behalf of the Association may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As of October 31, 2010, the Association had designated \$602,396 for replacement reserves. These designated reserves were funded by cash and interest-bearing deposits.

NOTE 4 - INCOME TAXES:

For income tax purposes, the Association may elect annually to file either as an exempt condominium or as an association taxable as a corporation. As an exempt condominium, the Association's net assessment income would be exempt from income tax, but its interest and rental income would be taxed. Electing to file as a corporation, the Association is taxed on its net income from all sources (to the extent not capitalized or deferred) at normal corporate rates after corporate exemption, subject to the limitation that operating expenses are deductible only to the extent of income from members. For the year ended October 31, 2010, the income taxes were calculated using the corporate method.

Effective November 1, 2009, the Association implemented Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 740-10, formerly FIN 48, Accounting for Uncertainty in Income Taxes. The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the year ended October 31, 2010, the Association did not incur any penalties and interest related to income taxes. The Association's federal and state tax returns for the past three years remain subject to examination by the Internal Revenue Service and the State of Maryland.

CROSS FOX CONDOMINIUM, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2010
(CONTINUED)

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of October 31, 2010, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Interest- Bearing Deposits</u>	<u>Total</u>
Mutual of Omaha	Checking	\$ 86,723	\$ -	\$ 86,723
Mutual of Omaha	Money Market	370,098		370,098
Mutual of Omaha	Money Fund	1,739		1,739
Mutual of Omaha (Various Institutions)	Certificates of Deposit (6)		<u>375,000</u>	<u>375,000</u>
	Totals	<u>\$ 458,560</u>	<u>\$ 375,000</u>	<u>\$ 833,560</u>

The Association has funds maintained in a Mutual of Omaha money fund. Although the value per share of this account has not changed since it was opened and its goal is to maintain a per share value of \$1, this account is subject to market fluctuation risk. Therefore, the market fluctuation risk as of October 31, 2010 was \$1,739.

Balances at banks are insured by the FDIC for up to \$250,000 per financial institution. Amounts in excess of the insured limits were approximately \$208,560 as of October 31, 2010.

NOTE 6 - ASSESSMENTS RECEIVABLE - NET:

The Association utilizes the allowance method of accounting for bad debt. Individual receivables are written off as a loss when a determination is made that they are non-collectible. Under the allowance method, collection efforts may continue and recoveries of amounts previously written off are recognized as income in the year of collection.

Assessments Receivable	\$ 89,606
Less: Allowance for Doubtful Assessments	<u>(72,810)</u>
Assessments Receivable - Net	<u>\$ 16,796</u>

NOTE 7 - SNOW RESERVE:

The Association has established a snow reserve for unexpected contingencies. During fiscal year 2010, the Association elected to contribute \$40,000, to this fund. As of October 31, 2010, the balance in the snow reserve was \$40,000. This fund was funded by cash and interest-bearing deposits.

CROSS FOX CONDOMINIUM, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2010
(CONTINUED)

NOTE 8 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 22, 2011, the date the financial statements were available to be issued.

Subsequent to year-end the Association had a roof replacement project, which cost approximately \$46,895. This project was funded through replacement reserves.

CROSS FOX CONDOMINIUM, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
OCTOBER 31, 2010
(UNAUDITED)

The Association had a replacement reserve study conducted by Miller Dodson Associates, Inc. in 2008 to estimate the remaining useful lives and the replacement costs of the components of common property. 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 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 has been extracted from the Association's replacement reserve study and presents significant information about the components of common property.

<u>Component</u>	<u>2008 Estimated Remaining Useful Life (Years)</u>	<u>2008 Estimated Replacement Cost</u>
Asphalt Pavement	0-5	\$ 257,830
Concrete Curb and Gutter	0-57	13,600
Wood Curb	0-27	69,000
Immediate Concrete Work	0	28,000
Concrete Sidewalk	0-54	204,000
Site Lights	7	31,200
Signage	2-5	11,500
Handrailing	0-10	7,960
Retaining Wall	2-15	18,325
Water Lines	2-7	69,100
Stormwater Management	17	1,300
Roofing, shingles	0-19	546,125
Gutter and Downspout	0-17	143,000
Building Caulking	0	11,000
Siding and Trim	3-14	391,125
Brick Repointing	3-43	382,500
Balcony, railing	3-14	71,500
Entry Doors	0-34	66,000
Rear Exit Doors	2-5	17,600
Common Doors and Windows	6-14	104,580
Exterior Building Lighting	5-10	5,440
Carpet	3	31,200
Vinyl Tile Floor Covering	13	15,170
Rubber Stair Treads	13	5,760
Common Interior Doors	13	20,800

CROSS FOX CONDOMINIUM, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
OCTOBER 31, 2010
(UNAUDITED)
(CONTINUED)

<u>Component</u>	<u>2008 Estimated Remaining Useful Life (Years)</u>	<u>2008 Estimated Replacement Cost</u>
Mailboxes	13	30,720
Common Interior Lighting (Allowance)	3	1,425
Fire Alarm System	3-20	105,000
Gas Lines	20	23,000
Hot Water Heaters	2-11	19,200
Wall Heaters (Allowance)	2	1,200
Tot Lot	2-17	19,360
Benches	2	2,000
Picnic Tables	2	15,300
Trash Can Containers	2	1,000

Goldklang Group CPAs, P.C.

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Communication with Those Charged with Governance under SAS No. 114

This communication is intended solely for the information and use of management and the board of directors and is not intended to be and should not be used by anyone other than these specified parties.

January 14, 2011

Board of Directors
Cross Fox Condominium, Inc.
Columbia, Maryland

Dear Board Members:

We have audited the financial statements of Cross Fox Condominium, Inc. as of October 31, 2010 and for the year then ended and have issued our report thereon. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and through discussions with management or the board of directors.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

The Association is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Association are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no

transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by the Association and are based on the Association's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the allowance for doubtful assessments.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure of subsequent events.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with the Association or management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The adjusting journal entries have been provided to the Association. The journal entries are material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management and Board of Directors Representations

We have requested certain representations from management and the board of directors that are included in the representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with the board of directors and management each year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Very truly yours,

Goldklang Group CPAs, P.C.

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Goldklang & Group

CPAs, P.C.

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Management Letter

This communication is intended solely for the information and use of management and the board of directors and is not intended to be and should not be used by anyone other than these specified parties.

January 14, 2011

Board of Directors
Cross Fox Condominium, Inc.
Columbia, Maryland

Dear Board Members:

In connection with our examination of the financial statements of Cross Fox Condominium, Inc. for the year ended October 31, 2010, we make the following comments and recommendations.

Financial Analysis

As of October 31, 2010, the Association had a surplus of \$176,109 in unappropriated members' equity (excess operating funds). This represents approximately 27% of annual assessments. We recommend the Association only maintain excess operating funds at a level of 10% to 20% of annual assessments. Any funds in excess of 20% may be transferred to replacement reserves.

The Association's assessments receivable balance of \$89,606 (before deducting the allowance for doubtful assessments of \$72,810) represents approximately 13% of annual assessments. An assessments receivable balance of 3% or more of annual assessments suggests the Association may have future cash flow problems. We recommend the Association continue to aggressively pursue all delinquent accounts.

The designated replacement reserves of \$602,396 were funded by cash and interest-bearing deposits as of October 31, 2010.

Crime Coverage

We recommend the Association meet with its insurance agent at least annually to discuss coverage and to make sure that the coverage provides the necessary and appropriate protection. In addition, the Association must get a clear understanding of the process necessary for prompt payment should an event occur and a claim becomes necessary. The Association should maintain crime coverage that equals or exceeds the total of its funds. It should be structured to include a defalcation or misappropriation committed by a Board member, an employee of the Association, or employees of the management company, including principals.

Federal Deposit Insurance Corporation (FDIC)

On July 21, 2010, the FDIC insurance limit of \$250,000 per financial institution was extended permanently. At times throughout the year, the Association's account balances may exceed this limit. We recommend the Association monitor its accounts and immediately transfer funds in excess of the FDIC limit to other institutions or Treasury instruments so all Association funds will be insured. The Association should also periodically check the ratings for all financial institutions used by the Association.

Income Taxes

Associations have two methods of filing income taxes. They are as follows:

- 1) Exempt - The Association may file as an exempt association under special provisions set aside for associations under the Tax Reform Act of 1976. Basically, the Act states that if an association meets certain tests as to revenues and expenses then all nonexempt revenue is taxed at the rate of 30%. An example of nonexempt revenue is interest income. Under this method, there are no tax consequences related to reserves or excess operating funds.

Corporate - Under the corporate method, the Association must apply Code Section 277 in which operating and nonoperating income must be treated separately. However, graduated rates beginning at 15% are used instead of the fixed rate of the exempt method. This can result in reduced taxes if close attention is paid to revenue rulings related to the handling of reserves and the deferring or refunding of excess assessments. In order to qualify, reserves must be accounted for separately and they must be capital in nature. Such items as painting, contingency, and general operating reserves are specifically excluded. In order to qualify for the deferring or refunding of excess assessments, action of the Board of Directors must be taken prior to fiscal year end.

For fiscal year 2010, we recommend the Association file using the corporate method.

We shall be pleased to discuss our comments and recommendations in greater detail and we are always available to give advice on any financial matter. Please do not hesitate to contact us if there are any questions regarding proper accounting procedures or the implementation of our suggested changes.

Very truly yours,

Goldklang Group CPAs, P.C.

GOLDKLANG GROUP CPAs, P.C.