

# Goldklang Group<sup>®</sup>

CPAs, P.C.

## Principals

Howard A. Goldklang, CPA, MBA  
Donald E. Harris, CPA  
Anne M. Sheehan, CPA  
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1801 Robert Fulton Drive, Suite 200  
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## Associate Principals

Jeremy W. Powell, CPA  
Renee L. Watson, CPA

## Managers

Allison A. Day, CPA  
Matthew T. Stiefvater, CPA

## Independent Auditor's Report

### Board of Directors

Cross Fox Condominium, Inc.

We have audited the accompanying Balance Sheets of the Cross Fox Condominium, Inc. as of October 31, 2012 and 2011, and the related Statements of Income, Members' Equity and Cash Flows for the years 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 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 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 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 Cross Fox Condominium, Inc. as of October 31, 2012 and 2011, 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, 2012, the Association had an assessments receivable balance of \$122,508 (before deducting the allowance for doubtful assessments of \$108,377). 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.

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on pages 11 and 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.

*Goldklang Group CPAs, P.C.*

January 21, 2013

CROSS FOX CONDOMINIUM, INC.  
BALANCE SHEETS  
OCTOBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 307,385	\$ 375,562
Interest-Bearing Deposits	725,000	550,000
Assessments Receivable - Net	14,131	17,264
Accrued Interest	1,389	1,734
Income Taxes Receivable	670	466
Accounts Receivable - Gas	3,880	4,489
Prepaid Expenses	<u>560</u>	<u>7,849</u>
Total Assets	<u>\$ 1,053,015</u>	<u>\$ 957,364</u>

<u>LIABILITIES AND MEMBERS' EQUITY</u>		
Accounts Payable	\$ 20,013	\$ 42,093
Deferred Insurance Proceeds	30,808	-
Prepaid Assessments	<u>14,428</u>	<u>11,794</u>
Total Liabilities	<u>\$ 65,249</u>	<u>\$ 53,887</u>
Snow Reserve	\$ 57,000	\$ 40,000
Replacement Reserves	828,300	664,514
Unappropriated Members' Equity	<u>102,466</u>	<u>198,963</u>
Total Members' Equity	<u>\$ 987,766</u>	<u>\$ 903,477</u>
Total Liabilities and Members' Equity	<u>\$ 1,053,015</u>	<u>\$ 957,364</u>

See Accompanying Notes to Financial Statements

CROSS FOX CONDOMINIUM, INC.  
STATEMENTS OF INCOME  
FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>INCOME:</u>		
Assessments	\$ 684,432	\$ 684,432
Interest	12,885	15,067
Gas	128,380	150,796
Laundry	9,750	9,000
Other	34,555	23,736
Total Income	<u>\$ 870,002</u>	<u>\$ 883,031</u>
<u>EXPENSES:</u>		
Management	\$ 66,000	\$ 63,768
Insurance	31,635	30,429
Legal, Audit and Tax Preparation	22,061	20,207
Office Supplies	5,390	5,597
Administrative	16,835	19,141
Cleaning Contract	44,211	44,211
Trash Removal	40,484	39,915
Landscaping	42,937	59,220
Snow Removal	4,053	24,533
Other Contracts	51,247	29,969
Utilities	191,426	226,727
Plumbing	11,847	9,310
Repairs and Maintenance	97,832	84,015
Recreation Equipment and Supplies	2,757	2,776
Bad Debt	16,854	30,925
Income Taxes	1,930	2,434
Total Expenses	<u>\$ 647,499</u>	<u>\$ 693,177</u>
Net Income before Contribution to Reserves	\$ 222,503	\$ 189,854
Contribution to Reserves	<u>(167,000)</u>	<u>(167,000)</u>
Net Income	<u>\$ 55,503</u>	<u>\$ 22,854</u>

See Accompanying Notes to Financial Statements

CROSS FOX CONDOMINIUM, INC.  
STATEMENTS OF MEMBERS' EQUITY  
FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

	<u>Snow Reserve</u>	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of October 31, 2010	\$ 40,000	\$ 602,396	\$ 176,109	\$ 818,505
Additions:				
Contribution to Reserves		167,000		167,000
Net Income			22,854	22,854
Deductions:				
Asphalt		(3,496)		(3,496)
Roof		(63,242)		(63,242)
Exterior Building Façade		(7,009)		(7,009)
Plumbing		(2,848)		(2,848)
Electrical System		(716)		(716)
Miscellaneous		(19,977)		(19,977)
Hot Water Heater		(7,594)		(7,594)
Balance as of October 31, 2011	\$ 40,000	\$ 664,514	\$ 198,963	\$ 903,477
Additions:				
Contribution to Reserves		167,000		167,000
Net Income			55,503	55,503
Inter-Equity Transfer	17,000	135,000	(152,000)	
Deductions:				
Concrete		(24,880)		(24,880)
Roof		(81,482)		(81,482)
Exterior Building Façade		(4,390)		(4,390)
Plumbing		(8,139)		(8,139)
Doors		(2,775)		(2,775)
Hot Water Heater		(16,548)		(16,548)
Balance as of October 31, 2012	<u>\$ 57,000</u>	<u>\$ 828,300</u>	<u>\$ 102,466</u>	<u>\$ 987,766</u>

See Accompanying Notes to Financial Statements

CROSS FOX CONDOMINIUM, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 55,503	\$ 22,854
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Allowance for Doubtful Assessments	9,294	26,273
Decrease (Increase) in:		
Assessments Receivable	(6,161)	(26,741)
Accrued Interest	345	(263)
Income Taxes Receivable	(204)	(246)
Accounts Receivable - Gas	609	833
Prepaid Expenses	7,289	(7,707)
Increase (Decrease) in:		
Accounts Payable	(22,080)	15,933
Deferred Insurance Proceeds	30,808	-
Income Taxes Payable	-	(147)
Prepaid Assessments	2,634	(905)
Net Cash Flows from Operating Activities	<u>\$ 78,037</u>	<u>\$ 29,884</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Replacement Reserves)	\$ 167,000	\$ 167,000
Disbursed for Replacement Reserves Expenditures	(138,214)	(104,882)
Received from Interest-Bearing Deposits	125,000	50,000
Disbursed for Interest-Bearing Deposits	(300,000)	(225,000)
Net Cash Flows from Investing Activities	<u>\$ (146,214)</u>	<u>\$ (112,882)</u>
Net Change in Cash and Cash Equivalents	\$ (68,177)	\$ (82,998)
Cash and Cash Equivalents at Beginning of Year	<u>375,562</u>	<u>458,560</u>
Cash and Cash Equivalents at End of Year	<u>\$ 307,385</u>	<u>\$ 375,562</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 2,600</u>	<u>\$ 2,900</u>

See Accompanying Notes to Financial Statements

CROSS FOX CONDOMINIUM, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2012 AND 2011

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.

F) Reclassification - Certain amounts have been reclassified in the accompanying 2011 financial statements to conform to the 2012 presentation.

CROSS FOX CONDOMINIUM, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2012 AND 2011  
(CONTINUED)

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.

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 2012. For fiscal year 2012, the Association budgeted to contribute \$167,000 to reserves. In addition the Association elected to transfer an additional \$135,000 to reserves from unappropriated members' equity.

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, 2012 and 2011, the Association had designated \$828,300 and \$664,514, respectively, 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 fiscal years 2012 and 2011, the income taxes were calculated using the corporate method.

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the fiscal years ended October 31, 2012 and 2011, 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, 2012 AND 2011  
(CONTINUED)

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of October 31, 2012, 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	\$ 76,858	\$ -	\$ 76,858
Mutual of Omaha	Money Market	229,816		229,816
Mutual of Omaha	Money Fund	711		711
Mutual of Omaha (Various Institutions)	Certificates of Deposit (10)		<u>725,000</u>	<u>725,000</u>
	Totals	<u>\$ 307,385</u>	<u>\$ 725,000</u>	<u>\$ 1,032,385</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, 2012 and 2011 was \$711 and \$1,662, respectively.

Balances at banks are insured by the FDIC for up to \$250,000 per financial institution. As of October 31, 2012 and 2011, amounts in excess of the insured limits were approximately \$102,703 and \$45,818, respectively.

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.

	<u>2012</u>	<u>2011</u>
Assessments Receivable	\$ 122,508	\$ 116,347
Less: Allowance for Doubtful Assessments	<u>(108,377)</u>	<u>(99,083)</u>
Assessments Receivable - Net	<u>\$ 14,131</u>	<u>\$ 17,264</u>

CROSS FOX CONDOMINIUM, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2012 AND 2011  
(CONTINUED)

NOTE 7 - SNOW RESERVE:

The Association established a snow reserve for unexpected snow removal. During fiscal year 2012, the Association elected to transfer \$17,000 from unappropriated members' equity to this fund. As of October 31, 2012 and 2011, the balance in the snow reserve was \$57,000 and \$40,000, respectively. This fund was funded by cash and interest-bearing deposits.

NOTE 8 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through January 21, 2013, the date the financial statements were available to be issued.

CROSS FOX CONDOMINIUM, INC.  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
OCTOBER 31, 2012  
(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, 2011  
(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