

Principals

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1801 Robert Fulton Drive, Suite 200
Reston, VA 20191

Managers

Allison A. Day, CPA
Matthew T. Stiefvater, CPA
Sheila M. Lewis, CPA

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.

December 21, 2017

Board of Directors
Cross Fox Condominium, Inc.

Dear Board Members:

In planning and performing our audit of the financial statements of Cross Fox Condominium, Inc. as of October 31, 2017 and for the year then ended, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and improving operating efficiency. This letter summarizes our comments and suggestions regarding those matters.

Association Specific Comments

Financial Analysis

Associations budget their income evenly over a twelve-month period. When assessments become delinquent, cash flow problems develop and the Association may have problems paying its monthly expenses. As of October 31, 2017, the Association's assessments receivable balance of \$156,646 (before deducting the allowance for doubtful assessments of \$147,817) was equal to 19% of annual assessments and gas reimbursements. Assessments receivable at a level of 3% or less of annual assessments indicates good collection procedures and has a positive impact on cash flow. An assessments receivable balance of more than 3% of annual assessments suggests the Association may have future cash flow problems. We recommend the Association continue to aggressively pursue all delinquent accounts.

As of October 31, 2017, the Association had a deficit of \$72,190 in unappropriated members' equity (operating funds). This resulted from the current year operating loss. The Association should develop a budget that will cover all operating costs and fully fund replacement reserves. We recommend the Association review its budget process. We also recommend the Association accumulate excess operating funds to a level of 10% to 20% of annual assessments. This procedure will decrease the chance that potential operating deficits will consume funds designated for replacement reserves.

During fiscal year 2017, the Association incurred a material net loss of \$115,779, which was caused by plumbing repairs and unreimbursed mold remediation costs. We recommend the Association consider adding a more significant operating reserve budget line item to act as a cushion should the Association experience material overages in the future.

The designated replacement reserves of \$939,539 as of October 31, 2017 were not fully funded due to the deficit in unappropriated members' equity.

Detailed Minutes of Board Meetings

Minutes of board meetings are important records of the decisions concerning areas of the Association's business and financial affairs. A review of the Association's minutes for fiscal year 2017 showed good form. We recommend the Association continue to maintain financially detailed minutes and send a copy of each meeting's minutes to the management company.

Income Taxes

For fiscal year 2017, we recommend the Association file using the corporate method.

Industry Standard Comments

Insurance

We recommend the Association meet with its insurance agent at least annually to discuss insurance coverage. The Association should make sure the insurance policies provide the necessary and appropriate protection. In addition to all of the standard coverage that is usually recommended, the Association should maintain appropriate crime and directors & officers (D&O) coverage. At a minimum, the Association should maintain crime coverage that equals or exceeds the total of its funds or as required by state law. 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.

Investment Policy

The Association should have a conservative investment policy, which is structured around three elements, in order of importance 1) safety, 2) liquidity and 3) yield. Because safety and liquidity are of prime importance to any association, we recommend investments be limited to instruments of the federal government, which are backed by its full faith and credit, and money market accounts and certificates of deposit at insured institutions.

Periodically, the Association should monitor its accounts for FDIC and SIPC coverage. The FDIC insurance limit is \$250,000 per financial institution. Cash and securities held at a SIPC member brokerage firm are insured by the SIPC for up to \$500,000, which includes \$250,000 limit for cash. The

Association should also periodically check the ratings for all financial institutions used by the Association.

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.



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Communication with Those Charged with Governance under AU-C §260

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.

December 21, 2017

Board of Directors
Cross Fox Condominium, Inc.

Dear Board Members:

We have audited the financial statements of Cross Fox Condominium, Inc. as of October 31, 2017 and for the year then ended and have issued our report thereon. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter. Professional standards also require that we communicate to you 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 U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility for the supplementary information required by the Financial Accounting Standards Board, as described by professional standards, is to apply certain limited procedures to the information about management's methods of preparing the information; however, we will not express an opinion or any assurance on the information.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the Association and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Association or to acts by management or employees acting on behalf of the Association. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. 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. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management'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:

Allowance for Doubtful Assessments

The Association's estimate of the allowance for doubtful assessments was established by reviewing the receivables for collectability. We evaluated key factors and assumptions used to develop the allowance for doubtful assessments in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no significant disclosures to the financial statements for the year under audit.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The adjusting journal entries have been provided to the Association and will be posted to the Association's accounts, if appropriate. The journal entries are material, either individually or in the aggregate, to the financial statements.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 Representations

We have requested certain representations from management that are included in the management 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 management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Emphasis of Matter Regarding Assessments Receivable

Cross Fox Condominium, Inc. raises funds for its operations and major repairs and replacements through assessment of its members. As explained in Note 6, as of October 31, 2017, the Association had an assessments receivable balance of \$156,646 (before deducting the allowance for doubtful assessments of \$147,817). 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. Our opinion on the financial statements is not modified with respect to this matter.

Required Supplementary Information

With respect to the supplementary information required by the Financial Accounting Standards Board, we applied certain limited procedures to the information, including inquiring of management about their methods of preparing the information; comparing the information for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements; and obtaining certain representations from management, including about whether the required supplementary information is measured and presented in accordance with prescribed guidelines.

Very truly yours,

Goldklang Group CPAs, P.C.

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Communication of Significant Deficiencies and/or Material Weaknesses under AU-C §265

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.

December 21, 2017

Board of Directors
Cross Fox Condominium, Inc.

Dear Board Members:

In planning and performing our audit of the financial statements of Cross Fox Condominium, Inc. as of October 31, 2017 and for the year then ended, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses or other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the Association's internal control to be material weaknesses or significant deficiencies:

Allowance for Doubtful Assessments

We proposed an adjustment in the amount of approximately \$31,000 to increase the allowance for doubtful assessments as of October 31, 2017. This adjustment corrects a material misstatement in the Association's financial statements and is considered a material weakness. If the Association does not have controls in place to ensure that the allowance for doubtful assessments is properly stated, then a material misstatement of the financial statements could occur that would not be prevented, or detected and corrected, by the Association's internal control.

Very truly yours,

Goldklang Group CPAs, P.C.

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Independent Auditor's Report

To the Board of Directors of
Cross Fox Condominium, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Cross Fox Condominium, Inc., which comprise the balance sheets as of October 31, 2017 and 2016, and the related statements of income, 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 from 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 Cross Fox Condominium, Inc. as of October 31, 2017 and 2016, 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.

Emphasis of Matter Regarding Assessments Receivable

Cross Fox Condominium, Inc. raises funds for its operations and major repairs and replacements through assessment of its members. As explained in Note 6, as of October 31, 2017, the Association had an assessments receivable balance of \$156,646 (before deducting the allowance for doubtful assessments of \$147,817). 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. Our opinion on the financial statements is not modified with respect to this matter.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that information on future major repairs and replacements on pages 11-12 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.

Reston, Virginia
June 8, 2018

CROSS FOX CONDOMINIUM, INC.

BALANCE SHEETS

OCTOBER 31, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|------------------------------|-----------------------|-------------------------|
| <u>ASSETS</u> | | |
| Cash and Cash Equivalents | \$ 264,428 | \$ 312,518 |
| Interest-Bearing Deposits | 675,000 | 675,000 |
| Assessments Receivable - Net | 8,829 | 6,616 |
| Accrued Interest | 1,497 | 1,400 |
| Income Taxes Receivable | 583 | 764 |
| Accounts Receivable - Other | 3,408 | 3,429 |
| Prepaid Expenses | <u>722</u> | <u>767</u> |
| Total Assets | <u>\$ 954,467</u> | <u>\$ 1,000,494</u> |

LIABILITIES AND MEMBERS' EQUITY

| | | |
|--|-----------------------|-------------------------|
| Accounts Payable | \$ 56,525 | \$ 52,703 |
| Prepaid Assessments | <u>10,773</u> | <u>16,339</u> |
| Total Liabilities | <u>\$ 67,298</u> | <u>\$ 69,042</u> |
| Snow Reserve | \$ 20,000 | \$ 20,000 |
| Replacement Reserves | 939,359 | 867,863 |
| Unappropriated Members' Equity (Deficit) | <u>(72,190)</u> | <u>43,589</u> |
| Total Members' Equity | <u>\$ 887,169</u> | <u>\$ 931,452</u> |
| Total Liabilities and Members' Equity | <u>\$ 954,467</u> | <u>\$ 1,000,494</u> |

See Accompanying Notes to Financial Statements

CROSS FOX CONDOMINIUM, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016

| | 2017 | 2016 |
|---|--------------|-------------|
| <u>INCOME:</u> | | |
| Assessments | \$ 708,048 | \$ 708,048 |
| Interest | 9,900 | 9,033 |
| Gas | 105,202 | 100,697 |
| Laundry | 6,960 | 8,450 |
| Other | 29,670 | 27,649 |
| Total Income | \$ 859,780 | \$ 853,877 |
| <u>EXPENSES:</u> | | |
| Management | \$ 70,812 | \$ 69,612 |
| Insurance | 67,486 | 56,181 |
| Legal, Audit and Tax Preparation | 21,711 | 19,288 |
| Administrative | 13,691 | 11,521 |
| Cleaning Contract | 44,311 | 44,286 |
| Trash Removal and Exterminating | 61,971 | 60,923 |
| Landscaping and Grounds Maintenance | 74,098 | 56,549 |
| Snow Removal | 13,984 | 28,063 |
| Utilities | 226,649 | 231,228 |
| Plumbing and Electrical | 33,922 | 23,414 |
| Repairs and Maintenance | 159,415 | 129,940 |
| Recreation Equipment and Supplies | 6,847 | 3,487 |
| Bad Debt | 29,719 | 26,814 |
| Income Taxes | 1,217 | 1,036 |
| Total Expenses | \$ 825,833 | \$ 762,342 |
| Net Income before Contribution to Reserves | \$ 33,947 | \$ 91,535 |
| Contribution to Reserves | (149,726) | (149,726) |
| Net Income (Loss) | \$ (115,779) | \$ (58,191) |

See Accompanying Notes to Financial Statements

CROSS FOX CONDOMINIUM, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016

| | <u>Snow Reserve</u> | <u>Replacement Reserves</u> | <u>Unappropriated Members' Equity (Deficit)</u> | <u>Total Members' Equity</u> |
|--------------------------------|-------------------------|---------------------------------|---|--------------------------------------|
| Balance as of October 31, 2015 | \$ 20,000 | \$ 785,675 | \$ 101,780 | \$ 907,455 |
| Addition: | | | | |
| Contribution to Reserves | | 149,726 | | 149,726 |
| Deductions: | | | | |
| Roof | | (38,278) | | (38,278) |
| Plumbing | | (9,891) | | (9,891) |
| Carpet | | (10,553) | | (10,553) |
| Hot Water Heater | | (8,816) | | (8,816) |
| Net Loss | | | (58,191) | (58,191) |
| Balance as of October 31, 2016 | \$ 20,000 | \$ 867,863 | \$ 43,589 | \$ 931,452 |
| Addition: | | | | |
| Contribution to Reserves | | 149,726 | | 149,726 |
| Deductions: | | | | |
| Asphalt | | (30,560) | | (30,560) |
| Exterior Building | | (19,898) | | (19,898) |
| Plumbing | | (4,543) | | (4,543) |
| Electrical System | | (5,869) | | (5,869) |
| Hot Water Heater | | (17,360) | | (17,360) |
| Net Loss | | | (115,779) | (115,779) |
| Balance as of October 31, 2017 | <u>\$ 20,000</u> | <u>\$ 939,359</u> | <u>\$ (72,190)</u> | <u>\$ 887,169</u> |

See Accompanying Notes to Financial Statements

CROSS FOX CONDOMINIUM, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|--------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES:</u> | | |
| Net Income (Loss) | \$ (115,779) | \$ (58,191) |
| Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities: | | |
| Bad Debt Expense | 29,719 | 26,814 |
| Decrease (Increase) in: | | |
| Assessments Receivable | (31,932) | (26,478) |
| Accrued Interest | (97) | (10) |
| Income Taxes Receivable | 181 | 510 |
| Accounts Receivable - Other | 21 | (289) |
| Prepaid Expenses | 45 | (64) |
| Increase (Decrease) in: | | |
| Accounts Payable | 3,822 | 11,574 |
| Prepaid Assessments | (5,566) | (402) |
| Net Cash Flows from Operating Activities | <u>\$ (119,586)</u> | <u>\$ (46,536)</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u> | | |
| Received from Assessments (Replacement Reserves) | \$ 149,726 | \$ 149,726 |
| Disbursed for Replacement Reserves Expenditures | (78,230) | (67,538) |
| Received from Interest-Bearing Deposits | 300,000 | 225,000 |
| Disbursed for Interest-Bearing Deposits | (300,000) | (225,000) |
| Net Cash Flows from Investing Activities | <u>\$ 71,496</u> | <u>\$ 82,188</u> |
| Net Change in Cash and Cash Equivalents | \$ (48,090) | \$ 35,652 |
| Cash and Cash Equivalents at Beginning of Year | <u>312,518</u> | <u>276,866</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 264,428</u> | <u>\$ 312,518</u> |
| <u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u> | | |
| Cash Paid for Income Taxes | <u>\$ 1,800</u> | <u>\$ 1,800</u> |

See Accompanying Notes to Financial Statements

CROSS FOX CONDOMINIUM, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017 AND 2016

NOTE 1 - NATURE OF OPERATIONS:

The Condominium is an association incorporated under the laws of the State of Maryland for the purposes of maintaining and preserving the common property of the Condominium. The Association 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 assess late and interest charges and 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 of accounting 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.

CROSS FOX CONDOMINIUM, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017 AND 2016
(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 2014. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The study recommends a contribution of \$149,726 for fiscal year 2017. For fiscal year 2017, the Association budgeted to contribute \$149,726 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, 2017 and 2016, the Association had designated \$939,359 and \$867,863, respectively, for replacement reserves. These designated reserves were not fully funded due to the deficit in unappropriated members' equity as of October 31, 2017.

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 2017 and 2016, 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, 2017 and 2016, 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, 2017 AND 2016
(CONTINUED)

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of October 31, 2017, 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 | \$ 47,441 | \$ - | \$ 47,441 |
| Mutual of Omaha | Money Market | 101,222 | | 101,222 |
| Mutual of Omaha | Money Fund | 3,069 | | 3,069 |
| Mutual of Omaha | ICS Savings | 112,696 | | 112,696 |
| Mutual of Omaha (Various Institutions) | Certificates of Deposit (9) | | 675,000 | 675,000 |
| | Totals | <u>\$ 264,428</u> | <u>\$ 675,000</u> | <u>\$ 939,428</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, 2017 and 2016 was \$3,069 and \$3,781, respectively.

Cash and securities held at a SIPC member brokerage firm are insured by the SIPC for up to \$500,000, which includes \$250,000 limit for cash. The Association maintains funds in a brokerage account which are subject to SIPC limits.

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>2017</u> | <u>2016</u> |
|--|------------------|------------------|
| Assessments Receivable | \$ 156,646 | \$ 133,315 |
| Less: Allowance for Doubtful Assessments | <u>(147,817)</u> | <u>(126,699)</u> |
| Assessments Receivable - Net | <u>\$ 8,829</u> | <u>\$ 6,616</u> |

CROSS FOX CONDOMINIUM, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017 AND 2016
(CONTINUED)

NOTE 7 - SNOW RESERVE:

The Association established a snow reserve for unexpected and/or excessive snow removal. As of October 31, 2017 and 2016, the balance in the snow reserve was \$20,000.

NOTE 8 - SUBSEQUENT EVENTS:

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

CROSS FOX CONDOMINIUM, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
OCTOBER 31, 2017
(UNAUDITED)

The Association had a replacement reserve study conducted by Miller Dodson Associates, Inc. in 2014 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. The estimated replacement costs presented below 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; however, the Association's replacement reserve study does take inflation into consideration when evaluating future expenditures and recommended contributions to reserves.

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>2014 Estimated Remaining Useful Life (Years)</u> | <u>2014 Estimated Replacement Cost</u> |
|----------------------------|---|--|
| Asphalt Pavement | 0-6 | \$ 257,830 |
| Concrete Header Curb | 0-24 | 81,180 |
| Concrete Sidewalk | 0-51 | 243,200 |
| Concrete Steps | 6 | 1,500 |
| Segmental Retaining Wall | 4-39 | 17,720 |
| Railing | 5-10 | 5,400 |
| Site Light | 5 | 19,500 |
| Entry Monument Sign | 14 | 2,143 |
| Cluster Mailbox | 25 | 9,880 |
| Stormwater Management | 10 | 1,300 |
| Roofing Shingles | 0-18 | 546,977 |
| Gutter & Downspout | 0-18 | 118,800 |
| Building Caulking | 0 | 11,550 |
| Window | 4 | 23,760 |
| Siding and Trim | 0-11 | 424,650 |
| Masonry | 0-8 | 484,500 |
| Privacy Fencing | 0-8 | 78,000 |
| Balcony, Metal Railing | 5-11 | 91,000 |
| Entry Doors | 0-32 | 10,944 |
| Rear Exit Doors | 6 | 9,600 |
| Common Utility Room Doors | 2 | 16,000 |
| Exterior Building Lighting | 3 | 8,320 |
| Flooring | 5 | 47,950 |

CROSS FOX CONDOMINIUM, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
OCTOBER 31, 2017
(UNAUDITED)
(CONTINUED)

| <u>Component</u> | <u>2014 Estimated Remaining Useful Life (Years)</u> | <u>2014 Estimated Replacement Cost</u> |
|---------------------------------|---|--|
| Vinyl Stair Treads | 10 | 5,760 |
| Common Interior Doors | 8 | 19,200 |
| Mailboxes | 25 | 30,720 |
| Interior Lighting | 15 | 27,840 |
| Life Safety | 5 | 48,000 |
| Fire Supression Security System | 14 | 80,000 |
| Gas Lines | 14 | 25,000 |
| Water Heaters | 4 | 129,600 |
| Storage Room | 5 | 14,400 |
| Stairway Drywall | 14 | 40,000 |