

FINANCIAL STATEMENTS
of
MONTPELIER COMMUNITY ASSOCIATION, INC.
and Accountants' Compilation Report

December 31, 2010

DAVID G. SIMMONS
Certified Public Accountant

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Independent Accountants' Compilation Report

To the Board of Trustees
Montpelier Community Association, Inc.
Laurel, Maryland

We have compiled the accompanying statement of financial position of Montpelier Community Association Inc. as of December 31, 2010, and the related statements of operations and changes in members' equity, and cash flows for the year then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements, without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

The accompanying information on page 8, *Schedule of Future Major Repairs and Replacements*, is not a required part of the basic financial statements, 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.

David G. Simmons, CPA
September 20, 2011

Montpelier Community Association, Inc.
Statement of Financial Position
As of December 31, 2010

		<u>2010</u>
Assets		
Cash and cash equivalents		
Unrestricted	\$ 27,401	
Benevolent Fund	6,070	
Gypsy Moth Fund	32,110	
Replacement reserve funds	<u>204,267</u>	
		269,848
Accounts receivable, net		7,005
Prepaid expenses		1,526
Fixed assets		
Furniture and equipment	44,662	
Accumulated depreciation	<u>(30,930)</u>	
Fixed assets, net		<u>13,732</u>
Total assets		<u><u>\$ 292,111</u></u>
Liabilities and Members' Equity		
Accrued expenses		\$ 499
Members' equity		
Unappropriated	49,141	
Appropriated for replacement reserves	204,267	
Appropriated for Benevolent Fund	6,094	
Appropriated for Gypsy Moth Fund	<u>32,110</u>	
		<u>291,612</u>
Total liabilities and members' equity		<u><u>\$ 292,111</u></u>

Montpelier Community Association, Inc.
Statement of Operations and Changes in Equity
For the year ended December 31, 2010

	2010
Revenues	
Assessments, net unappropriated	\$ 118,850
Interest income	4,108
Pool fees	6,370
Fees, fines, and related	7,206
Newsletter advertising	5,329
Other revenues	882
Satisfaction of appropriation restrictions	154,874
Total revenue	297,619
Expenses	
Pool maintenance and operation	72,329
Common area maintenance	28,008
Newsletter costs	7,255
Administrative costs	14,722
Professional fees	10,385
Insurance	6,063
Utilities	17,898
Depreciation	4,543
Other expenses	2,596
Replacement reserve expenditures	153,859
Donations	1,665
Total expenses	319,323
Change in appropriations	
Assessments appropriated to replacement reserves	57,725
Released from replacement reserves	(153,859)
Donations to Benevolent Fund	870
Released from Benevolent Fund	(1,015)
Interest to Gypsy Moth Fund	859
Net change in appropriations	(95,420)
Income before provision for income taxes	(117,124)
Provision for income taxes	57
Net Income	\$ (117,181)
Members' equity, beginning of year	408,793
Members' equity, end of year	\$ 291,612

Montpelier Community Association, Inc.
Statement of Cash Flows
For the year ended December 31, 2010

	2010
Cash flows from operating activities:	
Net income	\$ (117,181)
Adjustments to reconcile net income to net cash used by operating activities:	
Depreciation expense	4,543
Increase in accounts receivable, net	(1,196)
Increase in prepaid expenses	(39)
Decrease in accrued expenses	(1,021)
Net cash used by operating activities	(114,894)
Cash flows from investing activities:	
Purchase of furniture and equipment	(599)
Maturing of certificates of deposit, net	59,303
Net cash provided by investing activities	58,704
Net decrease in cash	\$ (56,190)
Cash, beginning of year	326,038
Cash, end of year	\$ 269,848
Supplemental disclosures:	
Interest paid	0
Taxes paid	1,530

Montpelier Community Association, Inc.
Notes to the Financial Statements
December 31, 2010

Note 1–Nature of Operations

The Montpelier Community Association, Inc. (the “Association”) was formed in 1966 as a non-stock corporation under the laws of Maryland. It has the purpose to promote the health, safety, and welfare of the residents of Montpelier, a residential community consisting of 695 homes located in Laurel, Maryland. This principally entails preserving and maintaining the common areas, and its related activities.

Note 2–Summary of Significant Accounting Policies

Accounting basis

The financial statements have been prepared on the accrual basis of accounting, which seeks to record revenue when earned and expenses when incurred.

Cash and cash equivalents

The Association considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Revenue recognition

The Association has a policy to develop an allowance for doubtful accounts based on circumstances surrounding the claim. The allowance for 2010 is \$3,608, and the accounts receivable and assessment revenue have been adjusted accordingly. Accounts are written off on the advice of the Association’s attorney based on the results or expected results of legal proceedings. The Association charges interest of 1% each month on assessments unpaid greater than one month, which is accrued and evaluated as part of the allowance for doubtful accounts.

Fixed assets

Consistent with accounting standards for the industry, the Association does not recognize the value of real property in its financial statements, as the governing documents restrict its ability to sell or dispose of these assets. They include land, sports fields, sports courts, playground, pools, buildings, sidewalks, parking lots, and the related improvements thereto. The Association does have a responsibility to maintain and preserve these common areas. Per the terms of the governing documents, this property can only be transferred if it is to an appropriate governmental entity to be devoted to the same purposes as nearly as practicable, and only after a three fourths vote of the membership agreeing to such a transfer. The Association does recognize common personal property, such as furnishings, recreational equipment, and the like, which are recorded at historical cost.

Depreciation

Depreciation is computed on personal property using a straight-line method over the asset's useful life. Equipment is generally depreciated over a period of 5 to 7 years, and furniture over a period of 7 to 12 years.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income taxes

Under the Internal Revenue Code, the Association may be taxed either as a homeowners' association or as a regular corporation. For 2010, the Association elected to be taxed as a homeowners' association, which permits exempt function income (such as member assessments) to be excluded from the calculation of income tax. However, non-exemption function income (such as investment income) remains subject to income tax, which has been provided for in the financial statements.

Date of management's review

Management has evaluated subsequent events through September 20, 2011, the date on which the financial statements were available to be issued.

Note 3—Restrictions on Cash

Certain cash deposits have been restricted in their use by the Association. The Benevolent Fund was established for the benefit of homeowners' who are experiencing financial difficulties, and is a way for the community to provide assistance. The Gypsy Moth Fund was established to spray the community to eradicate the insect larvae. The purpose of the Replacement Reserve Fund is to save for and disburse monies for the components of the common area in order to preserve their proper functioning. For further discussion on the Replacement Reserve Fund, see Note 5 below.

Note 4—Related Party Transactions

The Association contracts with certain members of the community for the performance of tasks in the course of its operations. These include an administrative assistant to the Board of Trustees, newsletter delivery, gate keeping, and grounds trash pickup, which together totaled \$26,096 for 2010. The terms of the arrangements are reviewed and approved by the Board, who have the responsibility for the execution of contracts.

Note 5–Future Major Repairs and Replacements

The Association’s governing documents require that funds be accumulated for future major repairs and replacements. In particular, the bylaws require that 10% of the annual assessment be placed in a replacement reserve fund, unless it is already fully funded. In addition, the replacement reserve fund is not to fall to a level less than 90% of the required amount, at which point the Board of Trustees must take immediate action and report to the membership. The governing documents state that a special assessment may be levied, but that the amount cannot exceed that of the maximum permitted annual assessment, and it must receive consent of two thirds of voting members. Funds accumulated for the replacement reserve are to be segregated, and invested in interest-bearing instruments.

The most recently completed replacement reserve study was performed in October 1998 by Becht Engineering Company, Inc. The purpose of a replacement reserve study is to estimate the amount of money which should be set aside to replace those common elements which will wear out before the entire facility requires replacement. It involves an estimate of the remaining useful lives and replacement costs of the components of common property, as well as a projected schedule of savings and disbursements. The study recommends annual updates of the assumptions underlying the projections contained therein, and updates of the engineering evaluation every five years, but a more recent analysis has not been completed. The Association began an internal study in 2008, but it was not fully completed. The table included in the unaudited supplementary information on future major repairs and replacements is based on the 1998 study.

The study recommended a 2010 contribution to the replacement reserve fund of \$32,051. The Association made the 2010 contribution in May 2010 in the amount of \$17,725, which represents 10% of the annual assessments. In addition, it set aside \$40,000 in December 2010 towards replacement reserve funds based on a vote of the Board of Trustees. The study included a projected replacement reserve balance at December 31, 2010 of \$386,470. The Association had in its replacement reserve fund at that date, \$204,267. The study is by nature an estimate, and therefore actual expenditures and investment income may vary from the estimated amounts, and the variations may be material. As a result, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements.

Unaudited Supplementary Information

Montpelier Community Association, Inc.
Unaudited Supplementary Information
Schedule of Future Major Repairs and Replacements
December 31, 2010

An independent engineer conducted a study in October 1998 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 replace common property components at the date of the study. Estimated replacement costs have not been revised since that date, and do not take into account the effects of inflation between the date of the study and the dates that the components will require repair or replacement. The following table summarizes the estimated replacement costs as of the date of that study, and compares it to funds currently accumulated.

<u>Components</u>	<u>Estimated remaining useful lives in years*</u>	<u>Estimated 1998 replacement cost</u>	<u>Funds accumulated</u>
Architectural	-11 to 12	\$10,074	\$4,092
Electrical	-11 to 13	\$11,635	\$4,726
Mechanical	-11 to 1	\$34,960	\$14,200
Site	-11 to 29	\$414,569	\$168,393
Miscellaneous	3 to 9	<u>\$31,650</u>	<u>\$12,856</u>
		\$502,888	\$204,267

*Negative years indicate components which would have expired their useful life since the time the study was conducted.

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