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**DRUM POINT PROPERTY OWNERS
ASSOCIATION, INC.**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

DRUM POINT PROPERTY OWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

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Independent Auditor's Report

To the Board of Directors
Drum Point Property Owners Association, Inc.

We have audited the accompanying balance sheet of Drum Point Property Owners Association, Inc., as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Drum Point Property Owners Association, Inc., as of June 30, 2007 and 2006, 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.

In connection with our audit, nothing came to our attention that caused us to believe that the Association failed to comply with the receipt, deposit, and disbursement of tax funds in accordance with approved appropriations and State and local law as required by the minimum requirements defined in Article 19, Section 40(b) of the Annotated Code of Maryland. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

The supplementary information on future major repairs and replacements on page 12 is not a required part of the basic financial statements of Drum Point Property Owners Association, 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.

September 17, 2007

DRUM POINT PROPERTY OWNERS ASSOCIATION, INC.
BALANCE SHEETS
JUNE 30, 2007 AND 2006

	2007		2006	
	Operating Fund	Special Tax District Fund	Operating Fund	Special Tax District Fund
	Total	Total	Total	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 68,658	\$ 96,878	\$ 165,536	\$ 148,729
Road Bonds - Cash	65,524	-	65,524	60,180
Owner Assessments Receivable, Less Allowance for Doubtful Accounts of \$12,185	20,826	-	20,826	14,080
Investments	39,880	-	39,880	15,617
Total Current Assets	194,888	96,878	291,766	238,606
Fixed Assets:				
Land	91,320	-	91,320	91,320
Building	81,180	-	81,180	81,180
Less: Accumulated Depreciation	(5,075)	-	(5,075)	(3,045)
Total Fixed Assets	167,425	-	167,425	169,455
Total Assets	\$ 362,313	\$ 96,878	\$ 459,191	\$ 408,061

LIABILITIES AND NET ASSETS

Current Liabilities:				
Road Bonds Payable	\$ 65,524	\$ -	\$ 65,524	\$ 60,180
Deferred Revenue	-	96,878	96,878	75,984
Notes Payable - Current Portion	9,390	-	9,390	8,021
Total Current Liabilities	74,914	96,878	171,792	144,185
Long-Term Liabilities:				
Notes Payable, Net of Current Portion	72,349	-	72,349	80,950
Total Liabilities	147,263	96,878	244,141	225,135
Net Assets:				
Unrestricted Net Assets	215,050	-	215,050	182,926
Total Net Assets	215,050	-	215,050	182,926
Total Liabilities and Net Assets	\$ 362,313	\$ 96,878	\$ 459,191	\$ 408,061

See auditor's report and accompanying notes to financial statements.

DRUM POINT PROPERTY OWNERS ASSOCIATION, INC.
 STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2007

	Operating Fund	Special Tax District Fund	Total
REVENUE			
Owners' Assessments	\$ 36,079	\$ 337,269	\$ 373,348
Road Fees	15,090	-	15,090
Reimbursements from Special Tax District	22,578	-	22,578
Federal Government Grants	-	-	-
Escrow Forfeitures	1,800	-	1,800
Interest Income	884	35	919
Reimbursement of Prior Year Allocated Interfund Income	-	-	-
Miscellaneous	165	-	165
Total Revenue	<u>76,596</u>	<u>337,304</u>	<u>413,900</u>
EXPENSES			
Operating:			
Accounting	-	4,055	4,055
Bad Debt Expense	-	-	-
Beach Security	3,305	-	3,305
Beach Purchase Agreement	2,496	-	2,496
Depreciation	2,030	-	2,030
Electric	-	2,240	2,240
Events	1,322	-	1,322
Insurance	-	6,886	6,886
Interest	5,597	-	5,597
Legal	1,870	420	2,290
Office Expense	6,411	5,466	11,877
Newsletter	3,793	3,793	7,586
Staff	255	25,632	25,887
Supplies	-	2,098	2,098
Taxes	2,734	-	2,734
Telephone	-	1,872	1,872
Total Operating Expenses	<u>29,813</u>	<u>52,462</u>	<u>82,275</u>
Replacement:			
Common Area Repairs and Maintenance	1,524	10,141	11,665
Road Repair	13,135	21,193	34,328
Boat Ramp Repair	-	-	-
Causeway	-	164,748	164,748
Other Capital Projects and Improvements	-	88,760	88,760
Total Replacement Expenses	<u>14,659</u>	<u>284,842</u>	<u>299,501</u>
Total Expenses	<u>44,472</u>	<u>337,304</u>	<u>381,776</u>
Change in Unrestricted Net Assets	32,124	-	32,124
Unrestricted Net Assets, Beginning of Year	<u>182,926</u>	<u>-</u>	<u>182,926</u>
Unrestricted Net Assets, End of Year	<u>\$ 215,050</u>	<u>\$ -</u>	<u>\$ 215,050</u>

See auditor's report and accompanying notes to financial statements.

DRUM POINT PROPERTY OWNERS ASSOCIATION, INC.
 STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2006

	Operating Fund	Special Tax District Fund	Total
REVENUE			
Owners' Assessments	\$ 38,283	\$ 172,941	\$ 211,224
Road Fees	15,785	-	15,785
Reimbursements from Special Tax District	13,578	-	13,578
Federal Government Grants	-	10,897	10,897
Escrow Forfeitures	10,950	-	10,950
Interest Income	1,363	58	1,421
Reimbursement of Prior Year Allocated Interfund Income	36,975	(36,975)	-
Miscellaneous	3,111	-	3,111
Total Revenue	120,045	146,921	266,966
EXPENSES			
Operating:			
Accounting	-	3,865	3,865
Bad Debt Expense	18,229	-	18,229
Beach Security	2,925	-	2,925
Beach Purchase Agreement	-	-	-
Depreciation	2,030	-	2,030
Electric	-	3,142	3,142
Events	1,773	-	1,773
Insurance	-	6,519	6,519
Interest	5,837	-	5,837
Legal	1,603	880	2,483
Office Expense	3,264	7,079	10,343
Newsletter	4,595	3,634	8,229
Staff	30	17,065	17,095
Supplies	7,851	1,427	9,278
Taxes	2,150	3,866	6,016
Telephone	-	1,812	1,812
Total Operating Expenses	50,287	49,289	99,576
Replacement:			
Common Area Repairs and Maintenance	11,170	22,718	33,888
Road Repair	6,516	9,307	15,823
Boat Ramp Repair	-	15,057	15,057
Causeway	-	50,550	50,550
Other Capital Projects and Improvements	-	-	-
Total Replacement Expenses	17,686	97,632	115,318
Total Expenses	67,973	146,921	214,894
Change in Unrestricted Net Assets	52,072	-	52,072
Unrestricted Net Assets, Beginning of Year	130,854	-	130,854
Unrestricted Net Assets, End of Year	\$ 182,926	\$ -	\$ 182,926

See auditor's report and accompanying notes to financial statements.

DRUM POINT PROPERTY OWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007		2006	
	Operating Fund	Special Tax District Fund	Operating Fund	Special Tax District Fund
	Total	Total	Total	Total
CASH FLOW FROM OPERATING ACTIVITIES				
Increase in Net Assets	\$ 32,124	\$ -	\$ 32,124	\$ -
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:				
Depreciation Expense	2,030	-	2,030	-
(Increase) Decrease in Operating Assets:				
Accounts Receivable	(6,746)	-	(6,746)	-
Prepaid Expenses	-	-	-	-
Increase (Decrease) in Operating Liabilities:				
Road Bonds Payable	5,344	-	5,344	-
Deferred Revenue	-	20,894	20,894	6,995
Net Cash Provided by Operating Activities	<u>32,752</u>	<u>20,894</u>	<u>53,646</u>	<u>6,995</u>
	52,072	-	52,072	-
	\$	\$	\$	\$
	32,124	-	32,124	-
	2,030	-	2,030	-
	(6,746)	-	(6,746)	-
	-	-	-	-
	5,344	-	5,344	-
	-	20,894	20,894	6,995
	<u>32,752</u>	<u>20,894</u>	<u>53,646</u>	<u>6,995</u>
	32,636	-	32,636	-
	(362)	-	(362)	-
	(362)	-	(362)	-
	(8,158)	-	(8,158)	-
	(8,158)	-	(8,158)	-
	1,257	20,894	22,151	6,995
	132,925	75,984	208,909	68,989
	<u>\$ 134,182</u>	<u>\$ 96,878</u>	<u>\$ 231,060</u>	<u>\$ 75,984</u>
	132,925	-	132,925	-
	\$	\$	\$	\$
	134,182	96,878	231,060	75,984
	132,925	-	132,925	-
	31,111	-	31,111	-
	177,798	-	177,798	-
	<u>\$ 208,909</u>	<u>\$ 208,909</u>	<u>\$ 208,909</u>	<u>\$ 208,909</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash Paid During the Year for:				
Income Taxes	-	-	-	-
Interest	5,597	-	5,597	-
	<u>\$ 5,597</u>	<u>\$ -</u>	<u>\$ 5,597</u>	<u>\$ -</u>

\$ -
\$ 5,837

See auditor's report and accompanying notes to financial statements.

DRUM POINT PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Drum Point Property Owners Association, Inc., (the Association) is a common interest real estate organization incorporated in the State of Maryland, created for the benefit of property owners who live in the subdivision known as Drum Point located in Calvert County, Maryland. It has as its purpose the general upkeep and maintenance of the common elements of the development with an emphasis on maintenance of the community infrastructure as well as the social, economic, cultural, recreational and environmental conditions within the Drum Point subdivision.

The community includes approximately 1,607 lots and seventeen miles of developed roads.

On January 4, 1996, the Board of Directors of the Association approved a measure to petition the Calvert County Commissioners to establish a special taxing district, under Section 4-101 through 4-104, Title 4, of the Annotated Code of Maryland. The petition was facilitated to alleviate funding shortfalls incurred based on the Association's current assessments. On June 18, 1996, the Board of County Commissioners of Calvert County approved the petition establishing a special taxing district within the community known as Drum Point. Taxes will be levied on property owners in the subdivision by Calvert County. These tax monies will be disbursed to the Drum Point Property Owners Association, Inc., to facilitate capital improvements and repair to the infrastructure of the community known as Drum Point.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

- Operating Fund - This fund is used to account for financial resources available for the general operations of the Association.
- Special Tax District Fund - This fund is used to accumulate and disburse financial resources designated for future major repairs and replacements and certain administrative expenses. Funds are being accumulated within this fund as taxes levied by Calvert County are collected on behalf of the Association. Revenues within the special tax district fund are recognized when funds are expended.

Interest Income

Interest income resulting from time deposits and loans, except for interest earned on special tax district advances, is allocated to the operating fund.

DRUM POINT PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Owner Assessments Receivable

The annual budget and owners' assessments are determined by the Board of Directors to provide for current operating funds. Excess operating funds, if any, are accumulated for future Board-designated expenditures. Total owner assessments receivable for the years ending June 30, 2007 and 2006 amounted to \$33,011 and 58,483, respectively.

Allowance for Doubtful Accounts

Owners' assessments are billed to members of the community on an annual basis. As of June 30, 2007 and 2006 an allowance of \$12,185 and 44,373, respectively, has been established based on historical collection rates. Accounts within this allowance are to be written off pending the Board's decision to pursue additional collection efforts and the related costs associated therewith. Collections on accounts previously written off are included in income as received.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

The Association maintains its cash accounts primarily with banks located in Maryland. The total cash balances are insured by the FDIC up to \$100,000 per bank. The Association has cash balances on deposit at June 30, 2007, that exceeded the balance insured by the FDIC by approximately \$170,000. The Association has not experienced any losses on such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Property and Equipment

The Association capitalizes all property and equipment purchases of \$1,000 and above. Property and equipment is recorded at cost, if purchased, or fair market value at the date of donation, if contributed. Depreciation is provided on a straight-line basis over the estimated useful life of the asset. Depreciation expense for the years ended June 30, 2007 and 2006 is \$2,030, respectively.

NOTE 2 - LAND AND BUILDING

The Association holds title to land acquired in an agreement with Drum Point Project, Inc. The value of this land at the time of transfer was \$49,500. The Association also owns non-buildable lots which are shown at zero value. The non-buildable lots consist of lots owned by the Association that

DRUM POINT PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 2 - LAND AND BUILDING (CONTINUED)

will not pass a percolation test. Even though the county has assessed a small value on these lots, they currently have no resale value. Gains on the sale of such land, if any, will be recognized to the extent of value received.

During the year ended June 30, 2005, the Association purchased property for \$123,000. Of this amount, \$41,820 is the value of the land and \$81,180 is the value of the building.

NOTE 3 - TAX STATUS

The Organization is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code, except on net income, if any, from unrelated business activities, and is classified as an organization that is not a private foundation.

NOTE 4 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

Special tax district funds (as more fully described in Note 1) are to be expended for designated major repairs and replacements and certain administrative expenses. The amount of unexpended funds aggregated \$96,878 and 75,984 as of June 30, 2007 and 2006, respectively.

The Board of Directors conducted a study in 1996 to estimate the replacement costs of the common property components. The Association is awaiting additional receipt of special tax assessments for such major repairs and replacements of these components based on the study's estimated current replacement costs. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated within the special tax district fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

For the years ended June 30, 2007 and 2006, replacement expenditures totaled \$ 284,842 and \$97,632 from the special tax district fund and \$ 14,659 and \$17,686 from the operating fund, respectively.

NOTE 5 - CASH AND CASH EQUIVALENTS

For the statement of cash flows, the Association considers cash on deposit, cash on hand, money market funds, and certificates of deposits with original maturities less than three months (if any) to be cash equivalents. Any penalties for early withdrawal would not have a material effect on the financial statements.

DRUM POINT PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 5 - CASH AND CASH EQUIVALENTS (CONTINUED)

Road Bonds Cash and Road Bonds Payable

The balance in Road Bonds-Cash is the security for the Road Bonds Payable account. When construction is performed by builders or developers on lots within the community, a cash bond is required to be posted to offset any possible road damage. When construction is completed, the cash road bond is released to the builder or developer.

NOTE 6 - MORTGAGE PAYABLE

On December 28, 2004, the Association purchased the building and land located at 401 Lake Drive, Lusby, Maryland for \$123,000. A mortgage of \$100,000 was obtained to partially finance the cost. It accrues interest at 7% per annum and is scheduled to mature on December 28, 2014. Monthly principal and interest payments in the amount of \$1,166 are required.

Principal maturities for the next five years are as follows:

2008	9,390
2009	9,223
2010	9,889
2011	10,604
2012	11,368
Thereafter	<u>31,265</u>
	\$ <u>81,739</u>

Interest expense for the year ended June 30, 2007 and 2006 was \$5,597 and 5,837, respectively.

SUPPLEMENTARY INFORMATION

DRUM POINT PROPERTY OWNERS ASSOCIATION, INC.
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
 AND REPLACEMENTS (UNAUDITED)
 JUNE 30, 2007

The Board of Directors conducted a study in 1996, with the help of engineers, to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on estimated replacement costs at the time of the study. Estimated current replacement costs have not been revised since that date. Funding requirements do not take into account the effects of inflation or interest on amounts funded for future major repairs and replacements.

The following information is based on the study and presents significant information about the components of common property.

<u>Component</u>	<u>Estimated Useful Lives (Years)</u>	<u>Estimated Current Replacement Cost (Survey Done July 1, 1996)</u>	<u>% of Total Cost</u>
Roadway	1 - 30	\$ 482,400	58%
Causeways	1 - 30	232,000	28%
Common Elements	1 - 30	<u>123,200</u>	<u>14%</u>
Total		\$ <u>837,600</u>	<u>100%</u>