



## **FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
JUNE 30, 2018 AND 2017**

DRUM POINT PROPERTY OWNERS' ASSOCIATION, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report .....	3-4
Balance Sheets .....	5
Statements of Revenue, Expenses, and Changes in Fund Balances .....	6-7
Statements of Cash Flows .....	8
Notes to Financial Statements .....	9-12
Supplementary Information:	
Supplementary Information on Future Major Repairs and Replacements (Unaudited) .....	14



## Independent Auditor's Report

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Drum Point Property Owners' Association, Inc., which comprise the balance sheets as of June 30, 2018 and 2017, and the statements of revenue, expenses, and changes in fund balances 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 Drum Point Property Owners' Association, Inc. as of June 30, 2018 and 2017, 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.

## Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements (unaudited) on page 14 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.

*Alta CPA Group, LLC*

September 19, 2018

DRUM POINT PROPERTY OWNERS' ASSOCIATION, INC.  
BALANCE SHEETS  
JUNE 30, 2018 AND 2017

	2018			2017		
	Operating Fund	Special Tax District Fund	Total	Operating Fund	Special Tax District Fund	Total
<b>ASSETS</b>						
Current Assets:						
Cash and Cash Equivalents	\$ 443,915	\$ 50,068	\$ 493,983	\$ 422,371	\$ 25,969	\$ 448,340
Road Bonds - Cash	21,500	-	21,500	16,500	-	16,500
Owner Assessments Receivable, Net Of Allowance for Doubtful Accounts of \$37,422 and \$28,742 for Years Ended 2018 and 2017, Respectively	72,868	-	72,868	57,060	-	57,060
Total Current Assets	<u>538,283</u>	<u>50,068</u>	<u>588,351</u>	<u>495,931</u>	<u>25,969</u>	<u>521,900</u>
Fixed Assets:						
Land	91,320	-	91,320	91,320	-	91,320
Building	81,180	-	81,180	81,180	-	81,180
Equipment	3,200	-	3,200	3,200	-	3,200
Less: Accumulated Depreciation	(32,622)	-	(32,622)	(29,525)	-	(29,525)
Total Fixed Assets	<u>143,078</u>	<u>-</u>	<u>143,078</u>	<u>146,175</u>	<u>-</u>	<u>146,175</u>
Total Assets	<u>\$ 681,361</u>	<u>\$ 50,068</u>	<u>\$ 731,429</u>	<u>\$ 642,106</u>	<u>\$ 25,969</u>	<u>\$ 668,075</u>
<b>LIABILITIES AND NET ASSETS</b>						
Current Liabilities:						
Accounts Payable and Accrued Expenses	\$ 4,608	\$ -	\$ 4,608	\$ 7,288	-	7,288
Road Bonds Payable	21,500	-	21,500	16,500	-	16,500
Deferred Revenue	144,186	50,068	194,254	148,501	25,969	174,470
Total Current Liabilities	<u>170,294</u>	<u>50,068</u>	<u>220,362</u>	<u>172,289</u>	<u>25,969</u>	<u>198,258</u>
Total Liabilities	170,294	50,068	220,362	172,289	25,969	198,258
Net Assets:						
Reserve	31,896	-	31,896	19,058	-	19,058
Unrestricted Net Assets	479,171	-	479,171	450,759	-	450,759
Total Unrestricted Net Assets	<u>511,067</u>	<u>-</u>	<u>511,067</u>	<u>469,817</u>	<u>-</u>	<u>469,817</u>
Total Liabilities and Net Assets	<u>\$ 681,361</u>	<u>\$ 50,068</u>	<u>\$ 731,429</u>	<u>\$ 642,106</u>	<u>\$ 25,969</u>	<u>\$ 668,075</u>

See independent 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, 2018

	<u>Operating Fund</u>	<u>Special Tax District Fund</u>	<u>Total</u>
<b>REVENUE</b>			
Owners' Assessments	\$ 64,073	\$ 142,146	\$ 206,219
Road Fees	149,800	-	149,800
SHUR Funds	14,185	-	14,185
Interest Income	517	-	517
Miscellaneous Income	138	-	138
Total Revenue	<u>228,713</u>	<u>142,146</u>	<u>370,859</u>
<b>EXPENSES</b>			
Operating:			
Accounting	812	3,500	4,312
Bad Debt	8,680	-	8,680
Beach Security	7,665	-	7,665
Depreciation	3,097	-	3,097
Electric	3,200	-	3,200
Events	1,206	-	1,206
Insurance	3,582	973	4,555
Legal	2,700	-	2,700
Office Expense	6,808	-	6,808
Newsletter	721	-	721
Staff	56,638	-	56,638
Supplies	1,713	-	1,713
Taxes	2,117	-	2,117
Telephone	1,358	-	1,358
Total Operating Expenses	<u>100,297</u>	<u>4,473</u>	<u>104,770</u>
Replacement:			
Common Area Repairs and Maintenance	20,407	-	20,407
Road Repair	1,070	-	1,070
Snow Removal	48,607	3,540	52,147
Other Capital Projects and Improvements	17,082	134,133	151,215
Total Replacement Expenses	<u>87,166</u>	<u>137,673</u>	<u>224,839</u>
Total Expenses	<u>187,463</u>	<u>142,146</u>	<u>329,609</u>
Change in Net Assets	41,250	-	41,250
Unrestricted Net Assets, Beginning of Year	<u>469,817</u>	<u>-</u>	<u>469,817</u>
Unrestricted Net Assets, End of Year	<u>\$ 511,067</u>	<u>\$ -</u>	<u>\$ 511,067</u>

See independent 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, 2017

	<u>Operating Fund</u>	<u>Special Tax District Fund</u>	<u>Total</u>
<b>REVENUE</b>			
Owners' Assessments	\$ 64,050	\$ 136,229	\$ 200,279
Road Fees	147,690	-	147,690
SHUR Funds	8,149	-	8,149
Interest Income	16	-	16
Miscellaneous Income	203	-	203
Total Revenue	<u>220,108</u>	<u>136,229</u>	<u>356,337</u>
<b>EXPENSES</b>			
Operating:			
Accounting	1,633	4,624	6,257
Bad Debt	28,742	-	28,742
Beach Security	7,186	-	7,186
Depreciation	3,097	-	3,097
Electric	3,158	-	3,158
Events	820	-	820
Insurance	3,240	1,189	4,429
Legal	4,837	-	4,837
Office Expense	10,791	-	10,791
Newsletter	707	-	707
Staff	58,970	-	58,970
Supplies	959	-	959
Taxes	2,068	-	2,068
Telephone	1,229	-	1,229
Total Operating Expenses	<u>127,437</u>	<u>5,813</u>	<u>133,250</u>
Replacement:			
Common Area Repairs and Maintenance	13,847	1,450	15,297
Road Repair	1,105	121	1,226
Snow Removal	15,925	6,693	22,618
Other Capital Projects and Improvements	18,070	122,152	140,222
Total Replacement Expenses	<u>48,947</u>	<u>130,416</u>	<u>179,363</u>
Total Expenses	<u>176,384</u>	<u>136,229</u>	<u>312,613</u>
Change in Net Assets	43,724	-	43,724
Unrestricted Net Assets, Beginning of Year	<u>426,093</u>	<u>-</u>	<u>426,093</u>
Unrestricted Net Assets, End of Year	<u>\$ 469,817</u>	<u>\$ -</u>	<u>\$ 469,817</u>

See independent 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, 2018 AND 2017

	2018			2017		
	Operating Fund	Special Tax District Fund	Total	Operating Fund	Special Tax District Fund	Total
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>						
Change in Net Assets	\$ 41,250	-	\$ 41,250	\$ 43,724	\$ -	\$ 43,724
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:						
Bad Debt Expense	8,680	-	8,680	28,742	-	28,742
Depreciation Expense	3,097	-	3,097	3,097	-	3,097
(Increase) Decrease in Operating Assets:						
Owner Assessments Receivable	(24,488)	-	(24,488)	(21,880)	-	(21,880)
Grant Receivable	-	-	-	-	23,118	23,118
Increase (Decrease) in Operating Liabilities:						
Road Bonds Payable	5,000	-	5,000	(7,500)	-	(7,500)
Accounts Payable and Accrued Expenses	(2,680)	-	(2,680)	5,595	-	5,595
Owner Assessments Deferred Revenue	(4,315)	-	(4,315)	5,754	-	5,754
Special Tax District Deferred Revenue	-	24,099	24,099	-	(24,136)	(24,136)
Net Cash Provided (Used) by Operating Activities	<u>26,544</u>	<u>24,099</u>	<u>50,643</u>	<u>57,532</u>	<u>(1,018)</u>	<u>56,514</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Redemption of Certificate of Deposit	-	-	-	12,777	-	12,777
Net Cash Provided by Investing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,777</u>	<u>-</u>	<u>12,777</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Net Increase (Decrease) in Cash and Cash Equivalents	26,544	24,099	50,643	70,309	(1,018)	69,291
Cash and Cash Equivalents at Beginning of Year	438,871	25,969	464,840	368,562	26,987	395,549
Cash and Cash Equivalents at End of Year	<u>\$ 465,415</u>	<u>\$ 50,068</u>	<u>\$ 515,483</u>	<u>\$ 438,871</u>	<u>\$ 25,969</u>	<u>\$ 464,840</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>						
Cash Paid During the Year for:						
Income Taxes			\$ -			\$ -
Interest			\$ -			\$ -

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



DRUM POINT PROPERTY OWNERS' ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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 1,615 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.

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, the financial statements reflect all significant receivables, payables and other liabilities.

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.

DRUM POINT PROPERTY OWNERS' ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of 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 statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the statements 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.

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.

Cash Concentrations

The Association maintains its cash accounts primarily with banks located in Maryland. The total cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. The Association had no balances in excess of FDIC insured limits at June 30, 2018.

Owner Assessments Receivable

The annual budget and owners' assessments are determined by the Board of Directors to provide for current operating funds. Owners' assessments are billed to members of the community on an annual basis. Excess operating funds, if any, are accumulated for future board designated expenditures. The Association provides for losses on assessments receivable using the allowance method, based on historical collection rates.

Allowance for Doubtful Accounts

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.

DRUM POINT PROPERTY OWNERS' ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Equipment is recorded at cost if purchased, or fair market value at time of donation if donated. Acquisition of property and equipment with a useful life of one year or greater and cost or fair market value of \$1,000 or more is capitalized. The costs of maintenance and repairs are charged to expense as incurred; significant renewals and betterments are capitalized. Depreciation is calculated using the straight line method over the estimated useful lives of the assets as follows:

Building	40 Years
Equipment	3 Years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is recognized in income for the period.

Tax Status

The Association 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.

The Association's informational return is subject to examination by the Internal Revenue Service and the State of Maryland, generally for the three years after it is filed.

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.

Subsequent Events

The Association evaluated subsequent events through the date that the financial statements were available to be issued. The Association is not aware of any significant events that occurred subsequent to the balance sheet date but prior to September 19, 2018 that would have a material impact on the financial statements.

DRUM POINT PROPERTY OWNERS' ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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 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 - 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 \$50,068 and \$25,969 as of June 30, 2018 and 2017, respectively.

The Board of Directors conducted a Level Two – Update level study in 2012 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 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 to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available. During the years ended June 30, 2018 and 2017, the Board reserved \$0 and \$0, respectively, of operating funds for future replacement costs.

NOTE 4- OPERATING LEASE

The Association entered into a copier lease on July 27, 2012. The monthly lease payment was \$123 for 60 months. In March 2016, the lease was terminated, and the Association entered into a new copier lease. The monthly lease minimum payment is \$152 for 60 months. The minimum future rental payments required under non-cancelable operating leases as of June 30, 2018 are:

2019	\$ 1,824
2020	1,824
2021	<u>1,368</u>
Total	\$ <u>5,016</u>

Rent expense was \$2,231 and \$2,072 for the years ended June 30, 2018 and 2017, respectively.

SUPPLEMENTARY INFORMATION

DRUM POINT PROPERTY OWNERS' ASSOCIATION, INC.  
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS  
 AND REPLACEMENTS (UNAUDITED)  
 JUNE 30, 2018

The Board of Directors conducted a study in 2012, 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. Funding requirements do not take into account the effects of inflation or interest on amounts funded for future major repairs and replacements.

<u>Component</u>	<u>Estimated Useful Lives (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>% of Total Cost</u>	<u>Replacement Reserve Balance at June 30, 2018</u>
Roadway	0 - 16	\$ 1,646,490	85%	\$ ---
Causeways	9	128,000	7%	---
Swales	4	75,000	4%	---
Common Elements	0 - 14	81,800	4%	---
Unclassified		<u>---</u>	<u>---</u>	<u>31,896</u>
Total		\$ <u>1,931,290</u>	<u>100%</u>	\$ <u>31,896</u>