

GREENWOOD AND ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
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November 28, 2011

To the Board of Directors of
Tuscowilla Hills Citizens' Association, Inc.

We have audited the financial statements of Tuscowilla Hills Citizens' Association, Inc. for the year ended December 31, 2010, and have issued our report thereon dated November 28, 2011. Professional standards require that we provide you with the following related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated October 7, 2010, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with auditing standards generally accepted in the United States of America.

Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal controls of Tuscowilla Hills Citizens' Association, Inc. and Property Management People, Inc. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Tuscowilla Hills Citizens' Association, Inc. are described in note 3 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2009. We noted no transactions entered into by the Association during the year that were both significant and unusual, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Association's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Association, either individually or in the aggregate, indicate matters that could have a significant effect on the Association's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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.

Consultation with Other Independent Accountants

In some cases, management may decide to consult 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.

Issues Discussed Prior to Retention of Independent Auditors

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.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management of Property Management People, Inc. in performing and completing our audit.

This information is intended solely for the use of the Board of Directors as of November 28, 2011 and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Greenwood & Associates,
Certified Public Accountants*

TUSCAWILLA HILLS CITIZENS' ASSOCIATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

GREENWOOD & ASSOCIATES
Certified Public Accountants
Frederick, MD

TUSCAWILLA HILLS CITIZENS' ASSOCIATION
FINANCIAL STATEMENTS
Years Ended December 31, 2010 and 2009

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tuscowilla Hills Citizens' Association
Charles Town, West Virginia

We have audited the accompanying balance sheet of Tuscowilla Hills Citizens' Association as of December 31, 2010 and 2009 and the related statements of revenues, expenses, and changes in fund balances and cash flows for the years then ended. These 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by 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 Tuscowilla Hills Citizens' Association as of December 31, 2010 and 2009 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.

The supplementary information on future major repairs and replacements on page 10 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 inquires 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.



Frederick, Maryland
November 28, 2011

TUSCAWILLA HILLS CITIZENS' ASSOCIATION
BALANCE SHEET
December 31, 2010 and 2009

ASSETS	Operating Fund	Replacement Fund	2010	Total 2009
Cash	\$ 54,637	\$ 32,428	\$ 87,065	\$ 38,587
Assessments receivable net of allowance for doubtful accounts of \$19,777 and \$2,308, respectively	32,961	-	32,961	35,431
Other receivable	-	-	-	2,635
Certificate of deposit	-	-	-	14,684
TOTAL ASSETS	\$ 87,598	\$ 32,428	\$ 120,026	\$ 91,337
 LIABILITIES AND FUND BALANCES				
Accounts payable	\$ 7,140	\$ 1,865	\$ 9,005	\$ 1,154
Prepaid assessments	26,353	-	26,353	4,129
Income tax payable	142	-	142	22
TOTAL LIABILITIES	33,635	1,865	35,500	5,305
 Fund balances	 53,963	 30,563	 84,526	 86,032
TOTAL LIABILITIES AND FUND BALANCES	\$ 87,598	\$ 32,428	\$ 120,026	\$ 91,337

The accompanying notes are an integral part of these financial statements

TUSCAWILLA HILLS CITIZENS' ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES
Years Ended December 31, 2010 and 2009

	Operating Fund	Replacement Fund	Total 2010	Total 2009
REVENUES				
Assessment income	\$ 135,377	\$ 77,591	\$ 212,968	\$ 217,687
Interest income	263	921	1,184	686
Other income	11,211	-	11,211	18,415
TOTAL REVENUES	146,851	78,512	225,363	236,788
EXPENSES				
Accounting	2,100	-	2,100	2,100
Bad debt expense	20,403	-	20,403	2,889
Charitable donation	-	-	-	50
Management fees	36,576	-	36,576	35,052
Legal	5,505	-	5,505	2,562
Property taxes	4,275	-	4,275	3,704
Income taxes	165	-	165	22
Insurance	2,588	-	2,588	2,640
Office & administrative expense	5,893	-	5,893	4,799
Grounds maintenance	29,080	-	29,080	26,360
Snow removal	26,766	-	26,766	8,749
Repairs & maintenance	7,591	64,921	72,512	104,307
Storm water management	-	-	-	7,333
Utilities	21,006	-	21,006	14,782
TOTAL EXPENSES	161,948	64,921	226,869	215,349
EXCESS OF REVENUES OVER EXPENSES	(15,097)	13,591	(1,506)	21,439
FUND BALANCES				
Beginning of year	69,060	16,972	86,032	64,593
End of Year	\$ 53,963	\$ 30,563	\$ 84,526	\$ 86,032

The accompanying notes are an integral part of these financial statements.

TUSCAWILLA HILLS CITIZENS' ASSOCIATION
STATEMENT OF CASH FLOWS
Years Ended December 31, 2010 and 2009

	Operating Fund	Replacement Fund	2010	Total 2009
CASH FLOWS FROM OPERATING ACTIVITIES				
(Deficit) excess of revenues over expenses	\$ (15,097)	\$ 13,591	\$ (1,506)	\$ 21,439
Adjustments to reconcile excess of revenues over expenses to net cash provided (used) by operating activities:				
Allowance for doubtful accounts	17,469	-	17,469	2,308
(Increase) decrease in:				
Assessments receivable	(14,999)	-	(14,999)	(15,439)
Other receivable	2,635	-	2,635	(2,635)
Increase (decrease) in:				
Accounts payable	5,986	1,865	7,851	325
Prepaid assessments	22,224	-	22,224	2,422
Income tax payable	120	-	120	(404)
NET CASH PROVIDED BY OPERATING ACTIVITIES	18,338	15,456	33,794	8,016
CASH FLOWS FROM FINANCING ACTIVITIES				
Redemption of certificate of deposit	-	14,958	14,958	-
Purchase of certificate of deposit	-	(274)	(274)	(149)
NET CASH PROVIDED BY FINANCING ACTIVITIES	-	14,684	14,684	(149)
NET INCREASE (DECREASE) IN CASH	18,338	30,140	48,478	7,867
CASH AT BEGINNING OF YEAR	36,299	2,288	38,587	30,720
CASH AT END OF YEAR	\$ 54,637	\$ 32,428	\$ 87,065	\$ 38,587
SUPPLEMENTAL DISCLOSURES				
Income taxes paid	\$ 45	\$ -	\$ 45	\$ 426

The accompanying notes are an integral part of these financial statements.

TUSCAWILLA HILLS CITIZENS' ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

1- NATURE OF ORGANIZATION

Tuscawilla Hills Citizens' Association was incorporated on January 30, 1976 in the State of West Virginia, as a non-stock corporation. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of 502 residential units, one commercial unit and five apartment buildings, located in Charles Town, West Virginia.

2 - DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through November 28, 2011, the date that the financial statements were available to be issued.

3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Association's financial statements have been prepared on the accrual basis of accounting and 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.

Replacement Fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

Member Assessments

Association members are subject to annual assessments, payable on an annual basis, 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. Assessments received in advance at the balance sheet date represent fees prepaid by unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year.

TUSCAWILLA HILLS CITIZENS' ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

3- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Allowance for Doubtful Accounts

The Association established an allowance for doubtful accounts based on the recommendation of the management company's analysis of the outstanding assessments.

Interest Income

Interest income is allocated to the operating and replacement funds according to the interest bearing deposits of each fund.

Cash

For purposes of reporting cash flows, the Association considers all cash accounts which are not subject to withdrawal restrictions or penalties and money market funds with a maturity of three months or less as cash.

Property and Equipment

Real property and common areas acquired from the developer 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. The Association capitalizes personal property assets at cost and depreciates it over its estimated useful life using the straight-line method.

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.

4 - INCOME TAXES

Homeowners' associations may be taxed either as a homeowners' association or as a regular corporation. For the year ended December 31, 2010 and 2009, the Association elected to be taxed as a homeowners' association. As a homeowners association, the Association generally is taxed only on its

TUSCAWILLA HILLS CITIZENS' ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

nonexempt function income, such as interest earnings, at a flat rate of 30%.
4 - INCOME TAXES (continued)

In calculating taxable income, nonexempt function income may be reduced by expenses that are attributable to or directly connected to generating income. Exempt income, which consists primarily of member assessments, is not taxable. Income tax expense for the years ended December 31, 2010 and 2009 was \$165 and \$22, respectively.

5 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's documents do not require the accumulation of funds for future major repairs and replacements. However, the Board of Directors has determined it prudent and wise to plan for the future replacement and repair of common property components. Subsequently, the Board of Directors has established a replacement fund and has accumulated funds of approximately \$32,428 and \$16,972 as of December 31, 2010 and 2009, respectively, which are held in separate accounts and are generally not available for operating purposes.

The Association engaged an independent engineer who conducted a study in 2008 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is following the cash flow method funding analysis disclosed in the reserve study to fund its reserves. The method provides the annual contributions necessary to meet projected expenditures without allowing total reserves on hand to fall below the specified minimum level in any year.

Actual expenditures however may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, they may delay major repairs and replacements until funds are available.

6 - COMMITMENTS

Management Contract

The Association has entered into an annually renewable contract with Property Management People, Inc., to manage the daily affairs of the Association.

TUSCAWILLA HILLS CITIZENS' ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

6 – COMMITMENTS (continued)

Maintenance Contracts

The Association has entered into contracts, none with terms extending beyond one year, to provide for various maintenance services to common areas. At year end, no contracts were in dispute and all payments were current.

Contracts entered into during the past year included grounds maintenance and snow removal services.

Supplementary Information
(Unaudited)

TUSCAWILLA HILLS CITIZENS' ASSOCIATION, INC.
SCHEDULE OF FUTURE MAJOR REPAIRS AND REPLACEMENTS
 December 31, 2010
 (Unaudited)

During 2008, the Association engaged an independent engineer to perform a study to estimate the remaining useful lives and the current replacement costs of the 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 following information is based on the study and presents significant information about the components of common property.

	Estimated remaining useful lives <u>(years)</u>	Estimated current replacement <u>costs</u>
Asphalt restoration	23	\$1,182,738
Asphalt repairs	18	179,033
Concrete sidewalks	3	409,437
Concrete curbs & gutters	3	202,112
Entrance features	23	8,500
Central mall station re-roofing	18	1,654
Central mailboxes	38	30,000
Summit point mall station re-roofing	18	2,961
Summit point mailboxes	38	26,550
Tot lot & outdoor furniture	13	18,500
Basketball standards	38	4,400
Basketball court restoration	18	3,700
Spilt-rail fencing	18	32,700
Storm water drainage system allowance	5	<u>7,500</u>
		<u>\$2,109,785</u>

See independent auditor's report.