NOTE 1 - NATURE OF OPERATIONS:

The Condominium was organized under the laws of the District of Columbia in 1980 for the purposes of maintaining and preserving the common property of the condominium. The Association is located in Washington, D.C. and consists of 168 units. The Association's Board of Directors administers the Condominium operations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

A) Method of Accounting - The financial statements are presented 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 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, mechanical equipment and recreational facilities.

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.

F) Depreciation - Fixed assets are carried at cost. Depreciation was computed on a straight-line basis over the estimated useful lives of the assets. The assets were fully depreciated in 2007.

NOTE 3 - REPLACEMENT RESERVES:

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds held are generally not available for expenditures for normal operations.

The Association had a replacement reserve study conducted by Reserve Advisors, Inc. during 2011. The table included in the supplementary information on Future Major Repairs and Replacement is based on this study.

The study recommends a contribution of $169,000 from assessments and $14,983 from interest for 2012. During 2012, the Association budgeted to contribute $308,724 to replacement reserves. Of this amount $128,140 is for HVAC repairs. In addition, the Association elected to contribute interest income of $28,625.

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 Association may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As of December 31, 2012 and 2011, the Association had designated $1,600,962 and $1,440,465, respectively, for replacement reserves. As of December 31, 2012, these designated reserves were funded by cash and interest-bearing deposits.

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 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 2012 and 2011, the income taxes were calculated using the corporate method.

NOTE 4 - INCOME TAXES: (CONTINUED)

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended December 31, 2012 and 2011, 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 District of Columbia.

In accordance with accounting standards, a deferred tax asset has been recorded in the financial statements. Deferred assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The Association had deferred tax assets of $0 and $1,210, as of December 31, 2012 and 2011, respectively. The deferred tax asset is related to the healthcare income tax credit established by the IRS. The deferred tax asset represents healthcare income tax credits that can be carried forward for federal income taxes only.

NOTE 5 - CASH, INTEREST-BEARING DEPOSITS AND INVESTMENTS:

As of December 31, 2012, the Association maintained its funds in the following manner:

Institution	Type Account	Cash and Cash Equivalents	Interest-Bearing Deposits	Total
BB&T	Checking	$ 128,228	$ -	$ 12,228
Morgan Stanley	Money Market	51,443		51,443
Morgan Stanley	Money Market	62,660		62,660
Morgan Stanley (Various Institutions)	Certificates of Deposit (36)		1,499,000	1,499,000
	Totals	$ 242,331	$ 1,499,000	$ 1,741,331

As of December 31, 2011, the Association had funds maintained in two Morgan Stanley Smith Barney money funds. Although the value per share of these accounts had not changed since they were opened and their goal was to maintain a share value of $1, these accounts were subject to market fluctuation risk. Therefore, the market fluctuation risk as of December 31, 2012 and 2011 was $0 and $82,507, respectively.

NOTE 5 - CASH, INTEREST-BEARING DEPOSITS AND INVESTMENTS: (CONTINUED)

ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820-10 uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 - Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 - Includes inputs other than level 1 that are directly or indirectly observable in the marketplace such as yield curves or other market data;

Level 3 - Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk such as bid/ask spreads and liquidity discounts.

It was the intent of the Association to hold the debt securities until maturity. Therefore, the corporate bonds were recorded at cost or amortized cost. The bond matured in 2012. As of December 31, 2011, the market value of the debt securities approximated cost or amortized cost. This bond was not FDIC or SIPC insured, nor backed by the United States Government.

2011	Level 1	Level 2	Level 3	Total
Corporate Bond	$ 26,100	$ -	$ -	$ 26,100

NOTE 6 - FIXED ASSETS - NET:

The Association owns a condominium unit which was capitalized at cost and was being depreciated over an estimated useful life of thirty years using the straight-line method.

Condominium Unit	$ 47,482
Land	8,006
Less: Accumulated Depreciation	(47,482)
Fixed Assets - Net	$ 8,006

NOTE 7 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 30, 2013, the date the financial statements were available to be issued.

Subsequent to year-end, the Association plans to complete façade repairs and replacement for an estimated cost of $190,000. This expenditure will be funded by reserves.