

**LEISURE WORLD OF MARYLAND TRUST**

**SILVER SPRING, MARYLAND**

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**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**



## Independent Auditors' Report

Leisure World Community Corporation, Trustee  
Leisure World of Maryland Trust  
Silver Spring, Maryland

We have audited the accompanying balance sheet of Leisure World of Maryland Trust as of December 31, 2011, and the related statements of revenues and expenses, trust equity, and cash flows for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Leisure World of Maryland Trust as of December 31, 2010, were audited by other auditors whose report dated March 31, 2011, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of Leisure World of Maryland Trust as of December 31, 2011, and the changes in its trust equity and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Councilor, Buchanan + Mitchell, P.C.*

Bethesda, Maryland  
March 27, 2012

Certified Public Accountants

**Leisure World of Maryland Trust**

**Balance Sheets  
December 31, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 743,313	\$ 628,393
Accounts Receivable, Net	1,241,112	1,387,577
Inventories	550,232	533,333
Prepaid Expenses and Other Current Assets	178,133	278,203
Total Current Assets	2,712,790	2,827,506
<b>Designated Assets</b>	4,278,597	3,038,676
<b>Property and Equipment,</b>		
Net of Accumulated Depreciation	14,824,828	15,493,995
<b>Total Assets</b>	<b>\$ 21,816,215</b>	<b>\$ 21,360,177</b>
<b>Liabilities and Trust Equity</b>		
<b>Current Liabilities</b>		
Due to Designated Assets	\$ 350,000	\$ 500,000
Accounts Payable and Accrued Liabilities	1,446,271	1,596,886
Accrued Payroll and Related Liabilities	856,702	661,441
Deferred Revenues	1,231,303	1,342,525
Total Current Liabilities	3,884,276	4,100,852
<b>Trust Equity</b>	17,931,939	17,259,325
<b>Total Liabilities and Trust Equity</b>	<b>\$ 21,816,215</b>	<b>\$ 21,360,177</b>

*See accompanying Notes to Financial Statements.*

Leisure World of Maryland Trust

Statements of Revenues and Expenses  
For the Years Ended December 31, 2011 and 2010

	2011				
	Community Facilities Operations	Combined Mutual Operations	Combined Total before Interdepartmental Eliminations	Interdepartmental Rental Eliminations	Total
<b>Revenues</b>					
Assessments	\$ 8,874,139	\$ 2,281,718	\$ 11,155,857	\$ -	\$ 11,155,857
Net Revenues from Cost Centers	3,859,990	3,653,790	7,513,780	(499,648)	7,014,132
Total Revenues	12,734,129	5,935,508	18,669,637	(499,648)	18,169,989
<b>Operating Expenses</b>					
Salaries and Wages	6,049,018	2,944,525	8,993,543	-	8,993,543
Contracted Services	2,657,122	1,210,174	3,867,296	-	3,867,296
Employee Benefits	1,386,425	736,083	2,122,508	-	2,122,508
Equipment Rental	476,606	251,805	728,411	(499,648)	228,763
Materials and Supplies	329,108	69,196	398,304	-	398,304
Electric	509,759	48,104	557,863	-	557,863
Janitorial	316,747	21,767	338,514	-	338,514
Repairs and Maintenance	232,028	12,088	244,116	-	244,116
Professional Fees	177,015	67,346	244,361	-	244,361
Telephone	118,928	34,991	153,919	-	153,919
Depreciation	133,378	106,359	239,737	-	239,737
Insurance	106,384	123,834	230,218	-	230,218
Water	89,525	22,045	111,570	-	111,570
Postage	30,198	6,565	36,763	-	36,763
Other	18,168	48,871	67,039	-	67,039
Vehicle Fuel and Oil	16,994	244,068	261,062	-	261,062
Gas	40,389	2,269	42,658	-	42,658
Total Operating Expenses	12,687,792	5,950,090	18,637,882	(499,648)	18,138,234
Excess (Deficiency) of Revenues over Expenses from Operations	46,337	(14,582)	31,755	-	31,755
Nonoperating Revenue and Expenses					
Royalty Revenue	72,997	-	72,997	-	72,997
Vacation Accrual	-	-	-	-	-
Community Facilities Depreciation	(622,998)	-	(622,998)	-	(622,998)
Nonoperating Excess of Expenses over Revenue	(550,001)	-	(550,001)	-	(550,001)
<b>Excess of Expenses over Revenues</b>	<b>\$ (503,664)</b>	<b>\$ (14,582)</b>	<b>\$ (518,246)</b>	<b>\$ -</b>	<b>\$ (518,246)</b>

See accompanying Notes to Financial Statements.

2010

Community Facilities Operations	Combined Mutual Operations	Combined Total before Interdepartmental Eliminations	Interdepartmental Rental Eliminations	Total
\$ 7,910,290	\$ 2,244,625	\$ 10,154,915	\$ -	\$ 10,154,915
4,213,610	3,268,218	7,481,828	(491,500)	6,990,328
<u>12,123,900</u>	<u>5,512,843</u>	<u>17,636,743</u>	<u>(491,500)</u>	<u>17,145,243</u>
6,292,294	2,727,387	9,019,681	-	9,019,681
1,809,256	1,186,309	2,995,565	-	2,995,565
1,417,371	658,651	2,076,022	-	2,076,022
491,483	218,695	710,178	(491,500)	218,678
319,605	61,741	381,346	-	381,346
519,447	42,212	561,659	-	561,659
311,168	22,220	333,388	-	333,388
209,209	10,380	219,589	-	219,589
159,176	63,585	222,761	-	222,761
132,054	40,800	172,854	-	172,854
128,240	123,010	251,250	-	251,250
103,809	119,840	223,649	-	223,649
89,811	20,272	110,083	-	110,083
35,202	11,442	46,644	-	46,644
19,343	29,039	48,382	-	48,382
17,523	200,134	217,657	-	217,657
41,338	1,804	43,142	-	43,142
<u>12,096,329</u>	<u>5,537,521</u>	<u>17,633,850</u>	<u>(491,500)</u>	<u>17,142,350</u>
<u>27,571</u>	<u>(24,678)</u>	<u>2,893</u>	<u>-</u>	<u>2,893</u>
18,250	-	18,250	-	18,250
(110,730)	-	(110,730)	-	(110,730)
(623,149)	-	(623,149)	-	(623,149)
<u>(715,629)</u>	<u>-</u>	<u>(715,629)</u>	<u>-</u>	<u>(715,629)</u>
<u>\$ (688,058)</u>	<u>\$ (24,678)</u>	<u>\$ (712,736)</u>	<u>\$ -</u>	<u>\$ (712,736)</u>

Leisure World of Maryland Trust

Statements of Trust Equity  
For the Years Ended December 31, 2011 and 2010

	Operating Surplus (Deficit)	Reserves	Mutuals' Investment in the Trust	Offsite Improvements	Community Facilities Purchased with Reserves	Community Facilities Equity	Valuation Equity	Depreciation	Tele- Communications Fund	Equipment Purchase Fund	New Sales Facility Fund	Total
<b>Balance, January 1, 2011</b>	<b>\$ (891,065)</b>	<b>\$ 1,890,980</b>	<b>\$ 392,575</b>	<b>\$ 442,581</b>	<b>\$ 12,659,994</b>	<b>\$ 13,239,119</b>	<b>\$ 404,500</b>	<b>\$ (12,027,053)</b>	<b>\$ 730,015</b>	<b>\$ 284,978</b>	<b>\$ 132,701</b>	<b>\$ 17,259,325</b>
Community Facilities Depreciation	-	-	-	-	-	-	-	(622,998)	-	-	-	(622,998)
Nonoperating Royalty Revenue	72,997	-	-	-	-	-	-	-	-	-	-	72,997
Transfers between Funds	(94,394)	2,893	-	-	45,333	-	-	-	(45,333)	91,501	-	-
Excess of Revenues over												
Expenses from Operations	31,755	-	-	-	-	-	-	-	-	-	-	31,755
Withdrawals	-	(1,504,313)	-	-	-	-	-	-	-	-	-	(1,504,313)
Contributions	-	2,685,070	-	-	-	-	-	-	-	10,103	-	2,695,173
<b>Balance, December 31, 2011</b>	<b>\$ (880,707)</b>	<b>\$ 3,074,630</b>	<b>\$ 392,575</b>	<b>\$ 442,581</b>	<b>\$ 12,705,327</b>	<b>\$ 13,239,119</b>	<b>\$ 404,500</b>	<b>\$ (12,650,051)</b>	<b>\$ 684,682</b>	<b>\$ 386,582</b>	<b>\$ 132,701</b>	<b>\$ 17,931,939</b>
Balance, January 1, 2010	\$ 27,283	\$ 1,233,153	\$ 392,575	\$ 442,581	\$ 12,449,645	\$ 13,239,119	\$ 404,500	\$ (11,403,904)	\$ -	\$ 201,133	\$ 132,701	\$ 17,118,786
Community Facilities Depreciation	-	-	-	-	-	-	-	(623,149)	-	-	-	(623,149)
Nonoperating Royalty Revenue	18,250	-	-	-	-	-	-	-	-	-	-	18,250
Transfer between Funds	(72,391)	-	-	-	-	-	-	-	-	72,391	-	-
Transfer to Contingency Reserves	(26,355)	26,355	-	-	-	-	-	-	-	-	-	-
Transfer to Telecommunications Fund	(730,015)	-	-	-	-	-	-	-	730,015	-	-	-
Vacation Accrual	(110,730)	-	-	-	-	-	-	-	-	-	-	(110,730)
Capitalized from Work-In-Progress	-	-	-	-	210,349	-	-	-	-	-	-	210,349
Excess of Revenues over												
Expenses from Operations	2,893	-	-	-	-	-	-	-	-	-	-	2,893
Withdrawals	-	(2,092,242)	-	-	-	-	-	-	-	-	-	(2,092,242)
Contributions	-	2,723,714	-	-	-	-	-	-	-	11,454	-	2,735,168
<b>Balance, December 31, 2010</b>	<b>\$ (891,065)</b>	<b>\$ 1,890,980</b>	<b>\$ 392,575</b>	<b>\$ 442,581</b>	<b>\$ 12,659,994</b>	<b>\$ 13,239,119</b>	<b>\$ 404,500</b>	<b>\$ (12,027,053)</b>	<b>\$ 730,015</b>	<b>\$ 284,978</b>	<b>\$ 132,701</b>	<b>\$ 17,259,325</b>

See accompanying Notes to Financial Statements.

## Leisure World of Maryland Trust

### Statements of Cash Flows For the Years Ended December 31, 2011 and 2010

	2011	2010
<b>Cash Flows from Operating Activities</b>		
Excess of Expenses over Revenues	\$ (518,246)	\$ (712,736)
Adjustments to Reconcile Excess of Expenses over Revenues to Net Cash Provided by Operating Activities		
Depreciation	862,737	874,399
<u>(Increase) Decrease in Assets</u>		
Accounts Receivable, Net	146,465	19,507
Inventories	(16,899)	6,925
Prepaid Expenses and Other Current Assets	100,070	10,996
<u>Increase (Decrease) in Liabilities</u>		
Due to Designated Assets	(150,000)	-
Accounts Payable and Accrued Liabilities	(150,613)	189,945
Accrued Payroll and Related Liabilities	195,261	159,312
Deferred Revenues	(111,222)	971,223
Net Cash Provided by Operating Activities	<b>357,553</b>	1,519,571
<b>Cash Flows from Investing Activities</b>		
Purchases of Property and Equipment	(193,572)	(389,204)
Withdrawals from Designated Assets	1,504,313	2,271,096
Contributions to Designated Assets	(2,744,234)	(3,742,787)
Net Cash Used in Investing Activities	<b>(1,433,493)</b>	(1,860,895)
<b>Cash Flows from Financing Activities</b>		
Funded Reserve Contributions	2,695,173	2,735,168
Funded Reserve Withdrawals	(1,504,313)	(2,092,242)
Equipment Purchase Fund Withdrawals	-	210,349
Net Cash Provided by Financing Activities	<b>1,190,860</b>	853,275
Increase in Cash	114,920	511,951
Cash, Beginning of Year	<b>628,393</b>	116,442
<b>Cash, End of Year</b>	<b>\$ 743,313</b>	<b>\$ 628,393</b>

*See accompanying Notes to Financial Statements.*

# **Leisure World of Maryland Trust**

## **Notes to Financial Statements December 31, 2011 and 2010**

### **1. NATURE OF ORGANIZATION**

Leisure World of Maryland Trust (the "Trust") is governed by two trust documents, Leisure World of Maryland Trust, dated March 9, 1966, and Leisure World of Maryland Trust Number Two, dated April 27, 1979. The Trust was formed for the general purposes of acquiring, constructing, owning, and operating various community properties located within the Leisure World Community (the "Community"), and incurring debt to further these purposes. The Trust holds the community properties in trust for the benefit of the cooperative, condominium, and homeowners association housing organizations, the "Mutuals," that are trustors and beneficiaries of the Trust.

Leisure World Community Corporation (LWCC) is trustee of the Trust, and as such is empowered with all the rights, powers, duties, and authority conferred and charged upon the trustee per the respective Trust Agreements referred to above. LWCC is a non-stock, membership corporation whose members are the Mutuals, as identified in Article Seven of the Articles of Incorporation. The trustee has appointed Leisure World of Maryland Corporation (LWMC) as the management agent of LWCC. LWMC is a wholly-owned subsidiary of LWCC. In February 2009, at the advice of legal counsel, the board of directors requested the general manager to provide counsel with the necessary documents to be placed in the Homeowners Association Depository maintained by the Clerk of the Circuit Court of Montgomery County, Maryland, in accordance with the Homeowners Association Act (HOA) of 1988. In addition, the board of directors agreed to comply with all requirements of the HOA.

Due to the inseparable nature of the financial activities of the Trust, LWCC, and LWMC in carrying out the purposes of the Trust and the close legal relationships of the three entities as trust, trustee, and wholly-owned subsidiary of the trustee, management does not distinguish among the three entities for accounting purposes and preparation of the Trust's financial statements. The accompanying financial statements of the Trust include the financial transactions and account balances of all three entities as a single whole.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **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 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.



## **Leisure World of Maryland Trust**

### **Notes to Financial Statements December 31, 2011 and 2010**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Cash and Cash Equivalents**

For purposes of asset classification and reporting cash flows, cash and cash equivalents include cash-on-hand and in banks and amounts invested in short-term U.S. government securities with maturities of 90 days or less. Cash on the balance sheets excludes accounts reported as designated assets.

##### **Accounts Receivable and Allowance for Uncollectible Accounts**

Accounts receivable arise from credit transactions with residents and mutuals located in the Community. All accounts receivable are granted on an unsecured basis.

Accounts receivables are due under normal trade terms requiring payment within 30 days of the invoice date. Accounts receivable are stated at the amount billed to the resident or mutual. Account balances over 120 days past due are considered delinquent and, unless strong mitigating factors exist, a dollar-for-dollar allowance is established in addition to other losses estimated by management. Accounts receivable in delinquent status at December 31, 2011 and 2010, totaled \$41,652 and \$85,436, respectively. The allowance for uncollectible accounts at December 31, 2011 and 2010, was \$66,160 and \$42,188, respectively. Accounts receivable are written off based on management's case-by-case determination that they are uncollectible.

##### **Inventories**

Inventories are stated at the lower of cost or market, with cost determined principally by the first-in, first-out method.

##### **Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consist primarily of work in process associated with community facility construction and/or renovation projects that are not yet reimbursed from the applicable designated fund responsible for payment of the associated project's costs. Also included are the prepayments of insurance policies and taxes.

##### **Designated Assets**

The designated assets are funds set aside for specific purposes such as the purchase of equipment, the construction of new facilities, and payment for repairs and maintenance of community properties. These funds are used only with approval of the board of directors. The designated assets consist of cash that is deposited primarily with 19 financial institutions and also with a mutual fund consisting of short-term U.S. Government Treasury securities. The Trust's policy is to record investments at cost, which approximates fair value.

# Leisure World of Maryland Trust

## Notes to Financial Statements December 31, 2011 and 2010

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Property and Equipment

The Trust capitalizes property and equipment with a cost of \$2,000 or more, including smaller amounts purchased in a group when the total cost is \$2,000 or more. Community facilities are being depreciated using the straight-line method over 40 years, once the asset is placed in service. Furniture and equipment are depreciated using the straight-line method over ten years, except for computer equipment, which uses a five-year useful life. Vehicles are depreciated using the straight-line method over ten years for cars and smaller trucks and seven years for large or heavy duty trucks. Offsite improvements consist of land improvements that the Trust considers as nondepreciable.

Depreciation of furniture, equipment, and vehicles is included in operating expenses and depreciation of community facilities is included in nonoperating expenses in the accompanying statements of revenues and expenses.

#### Deferred Revenues

Payments received for assessments before they are earned are deferred and recognized over the periods to which the payments relate.

Additionally, proceeds of an exclusive cable television agreement are deferred and being amortized over the ten-year term of the agreement and reflected as royalty revenue on the statements of revenues and expenses. In the event of an LWCC default that is not cured, the right to receive the compensation shall terminate immediately and a prorated refund shall be paid to Comcast.

#### Assessments

The major source of revenue for the Trust is assessments made to the Mutuels. These assessments are used to pay the current and future operating expenses of the Trust.

#### Income Taxes

Accounting principles generally accepted in the United States of America require the Trustee to evaluate tax positions taken by the Trust and recognize a tax liability (or asset) if the Trust has taken an uncertain position that more likely than not would not be sustained upon examination by the federal and State of Maryland authorities. The Trustee has analyzed the tax positions taken by the Trust, and has concluded that as of December 31, 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

The Trust is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Trust's 2010, 2009, and 2008 Forms 1041 that have been filed with the Internal Revenue Service as of December 31, 2011, are subject to audit, generally for three years after the date they were filed.

## Leisure World of Maryland Trust

### Notes to Financial Statements December 31, 2011 and 2010

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform with the presentation in the 2011 financial statements.

#### 3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	<u>2011</u>	<u>2010</u>
Chargeable Service/Intercompany Charges		
Mutuals	\$ 837,290	\$ 913,424
Residents	<u>131,340</u>	<u>142,727</u>
	<u>968,630</u>	<u>1,056,151</u>
Pharmacy Receivables	84,568	117,374
Medical Receivables	<u>228,356</u>	<u>217,541</u>
	312,924	334,915
Less Allowance for Uncollectible Accounts	<u>(66,160)</u>	<u>(42,188)</u>
	<u>246,764</u>	<u>292,727</u>
Other Receivables	<u>25,718</u>	<u>38,699</u>
Total Accounts Receivable	<u>\$ 1,241,112</u>	<u>\$ 1,387,577</u>

#### 4. INVENTORIES

Inventories consisted of the following:

	<u>2011</u>	<u>2010</u>
Physical Properties	\$ 306,771	\$ 293,135
Pharmacy Drugs	111,780	125,523
Supplies		
Grounds Maintenance	46,562	43,155
Snow Chemicals	29,665	32,940
Golf Pro Shop	11,760	15,831
Administrative	5,385	5,102
Restaurant	10,807	10,807
Vehicle Maintenance	4,261	4,261
Golf Maintenance	2,579	2,579
Fuel Inventory	<u>20,662</u>	<u>-</u>
Total	<u>\$ 550,232</u>	<u>\$ 533,333</u>

Leisure World of Maryland Trust

Notes to Financial Statements  
December 31, 2011 and 2010

Note 5 - Designated Assets

Summaries of designated asset components and activity for 2011 and 2010, are as follows:

	Reserves								Tele- Communications Fund	Equipment Purchase Fund	New Sales Facility Fund	Total Designated Assets
	Contingency Fund	Capital and Operating Fund	Resale Improvement Fund	Replacement Fund	Snow Removal Fund	Salary Fund	Property Maintenance Fund	Total Reserves				
<b>2011</b>												
Cash and Cash Equivalents	\$ 124,902	\$ 12,481	\$ 2,153,075	\$ 314,530	\$ 38,459	\$ 60,978	\$ 20,207	\$ 2,724,632	\$ 684,682	\$ 386,582	\$ 132,701	\$ 3,928,597
Due from Operations	-	-	350,000	-	-	-	-	350,000	-	-	-	350,000
<b>Total</b>	<b>\$ 124,902</b>	<b>\$ 12,481</b>	<b>\$ 2,503,075</b>	<b>\$ 314,530</b>	<b>\$ 38,459</b>	<b>\$ 60,978</b>	<b>\$ 20,207</b>	<b>\$ 3,074,632</b>	<b>\$ 684,682</b>	<b>\$ 386,582</b>	<b>\$ 132,701</b>	<b>\$ 4,278,597</b>
<b>Balance,</b>												
January 1, 2011	\$ 154,402	\$ 12,481	\$ 1,644,418	\$ 49,843	\$ (2,311)	\$ 31,361	\$ 788	\$ 1,890,982	\$ 730,015	\$ 284,978	\$ 132,701	\$ 3,038,676
Transfers between Funds	2,893	-	(165,000)	165,000	-	-	-	2,893	(45,333)	91,501	-	49,061
Contributions	-	-	1,056,422	99,687	125,282	29,617	1,374,062	2,685,070	-	10,103	-	2,695,173
Withdrawals	(32,393)	-	(32,765)	-	(84,512)	-	(1,354,643)	(1,504,313)	-	-	-	(1,504,313)
<b>Balance,</b>												
December 31, 2011	<b>\$ 124,902</b>	<b>\$ 12,481</b>	<b>\$ 2,503,075</b>	<b>\$ 314,530</b>	<b>\$ 38,459</b>	<b>\$ 60,978</b>	<b>\$ 20,207</b>	<b>\$ 3,074,632</b>	<b>\$ 684,682</b>	<b>\$ 386,582</b>	<b>\$ 132,701</b>	<b>\$ 4,278,597</b>
<b>2010</b>												
Cash and Cash Equivalents	\$ 154,402	\$ 12,481	\$ 1,144,418	\$ 49,843	\$ (2,311)	\$ 31,361	\$ 788	\$ 1,390,982	\$ 730,015	\$ 284,978	\$ 132,701	\$ 2,538,676
Due from Operations	-	-	500,000	-	-	-	-	500,000	-	-	-	500,000
<b>Total</b>	<b>\$ 154,402</b>	<b>\$ 12,481</b>	<b>\$ 1,644,418</b>	<b>\$ 49,843</b>	<b>\$ (2,311)</b>	<b>\$ 31,361</b>	<b>\$ 788</b>	<b>\$ 1,890,982</b>	<b>\$ 730,015</b>	<b>\$ 284,978</b>	<b>\$ 132,701</b>	<b>\$ 3,038,676</b>
<b>Balance,</b>												
January 1, 2010	\$ 36,165	\$ 12,481	\$ 1,020,468	\$ -	\$ 162,092	\$ 1,744	\$ 201	\$ 1,233,151	\$ -	\$ 201,133	\$ 132,701	\$ 1,566,985
Transfer between Funds	26,355	-	-	-	-	-	-	26,355	-	83,845	-	110,200
Contributions	214,765	-	984,032	49,843	49,843	29,617	1,395,617	2,723,717	730,015	-	-	3,453,732
Withdrawals	(122,883)	-	(360,082)	-	(214,246)	-	(1,395,030)	(2,092,241)	-	-	-	(2,092,241)
<b>Balance,</b>												
December 31, 2010	<b>\$ 154,402</b>	<b>\$ 12,481</b>	<b>\$ 1,644,418</b>	<b>\$ 49,843</b>	<b>\$ (2,311)</b>	<b>\$ 31,361</b>	<b>\$ 788</b>	<b>\$ 1,890,982</b>	<b>\$ 730,015</b>	<b>\$ 284,978</b>	<b>\$ 132,701</b>	<b>\$ 3,038,676</b>

## Leisure World of Maryland Trust

### Notes to Financial Statements December 31, 2011 and 2010

#### 5. DESIGNATED ASSETS (CONTINUED)

The following are descriptions of the purposes of the various funded reserves:

##### **Contingency Fund**

The purpose of this fund is to pay for unplanned expenditures. The monthly per unit contribution to this fund was \$0.00 in 2011 and \$1.11 in 2010.

##### **Capital and Operating Fund**

This fund was established for the purpose of purchasing capital equipment required as a result of new units being added to the Community. There has been no activity (deposits or expenditures) from this account.

##### **Resale Improvement Fund**

The purpose of this fund is to pay for improvements and additions to existing facilities within the Community. Funding comes from contributions received from the resale of existing units.

##### **Replacement Fund**

The purpose of this fund, which was established in 2010, is to fund future improvements and replacements of existing facilities. Funding is based on a facilities reserve study incorporating components costing greater than \$25,000. The current reserve study is a 20-year cash flow projection prepared by LWMC. Funding consisted of \$1.48 per unit in 2011 and \$.74 per unit in 2010.

In addition to the per unit budgeted contribution, the Board of Directors approved supplemental funding of \$165,000 to be transferred into this fund from the Resale Improvement Fund. This transfer was made in November 2011.

##### **Snow Removal Fund**

The purpose of this fund is to pay for snow removal chemicals used within the Community. Funding during 2011 and 2010 consisted of per unit contributions of \$1.86 and \$0.74, respectively.

##### **Salary Fund**

The purpose of this fund is to accumulate funding for the 27<sup>th</sup> payroll, which occurs approximately every 11 years. Funding during 2011 and 2010 consisted of per unit contributions of \$0.44 and \$0.44, respectively.

## **Leisure World of Maryland Trust**

### **Notes to Financial Statements December 31, 2011 and 2010**

#### **5. DESIGNATED ASSETS (CONTINUED)**

##### **Property Maintenance Fund**

The purpose of this fund is to pay for repairs and maintenance to community property based on the pre-approved plan. Funding during 2011 and 2010 consisted of per unit contributions of \$20.40 and \$20.72, respectively.

##### **Telecommunications Fund**

As part of the extension of the contract to provide cable service in the Community, Comcast agreed to pay the Community \$870,015. Through board action, the Contingency Fund was reimbursed \$140,000 to address both legal and consulting fees incurred as part of the contract negotiations. The telecommunications fund contribution in 2010 is the net \$730,015 paid by Comcast upon full execution of the contract between Comcast of Potomac, LLC, (Comcast) and LWCC on August 19, 2010. Expenditures from this fund are identified and approved by LWCC's Board of Directors.

##### **Equipment Purchase Fund**

The purpose of the equipment purchase fund is to purchase replacement equipment. Contributions to this fund are made annually by transferring, at a minimum, an amount equal to the annual depreciation of equipment. Beginning in 2003, management began transferring a portion of the Mutuals' assessments for each year into the fund.

Equipment depreciation expense for the years ended December 31, 2011 and 2010, totaled \$239,739 and \$251,249, respectively. Contributions to the fund totaled equipment depreciation expense plus mutual contributions of \$0.15 and \$0.17 per unit in 2011 and 2010, respectively.

##### **New Sales Facility Fund**

The new sales facility fund was established to pay for the construction or acquisition of new facilities within the Community. The funding of this reserve is generated from new sales contributions, which are considered capital contributions and, accordingly, included as a part of the trust equity and designated as "Community Facilities Equity" in the statements of trust equity. In addition, earnings designated by the Trustee from the investment of these monies remain in the fund.

On March 20, 2012, LWCC and Villas of Leisure, L.L.C., (developer of Building V of Villa Cortes) entered into an agreement related to, among other things, contributions to the Trust from the settlement of new units for the purpose of funding construction or acquisition of new facilities within the Community. The agreement stipulates that the Trust will receive \$6,150 each for all units settled in Villa Cortese Building V.

## Leisure World of Maryland Trust

### Notes to Financial Statements December 31, 2011 and 2010

#### 6. PROPERTY AND EQUIPMENT

The Trust depreciates the Mutuals' investment in community facilities and offsite improvements on a straight-line basis over the estimated useful life of 40 years. This depreciation represents a noncash charge that is not billed to the members and is reflected as a nonoperating expense in the statements of revenues and expenses.

Additionally, the Trust owns assets in the form of furniture and equipment and vehicles used for operations. These assets are depreciated on a straight-line basis over the estimated useful lives of the respective assets, ranging from three to ten years. The depreciation recorded on these assets is considered a part of normal operations and is reflected in the statements of revenues and expenses as part of operating expenses.

The Trust completed the renovation of the Clubhouse I lobby and replaced all windows in Clubhouse I. As of December 31, 2010, \$210,349 has been expended from the resale improvement fund for these projects.

Property and equipment consisted of the following as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Community Facilities	\$ 25,362,483	\$ 25,362,483
Furniture and Equipment	2,999,860	2,835,892
Offsite Improvements	442,581	442,581
Vehicles	<u>1,443,554</u>	<u>1,413,954</u>
	30,248,478	30,054,910
Less Accumulated Depreciation	<u>(15,423,650)</u>	<u>(14,560,915)</u>
	<u>\$ 14,824,828</u>	<u>\$ 15,493,995</u>

Community facilities consisted of the following as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Administration Building	\$ 631,007	\$ 631,007
Clubhouse I	3,557,213	3,557,213
Clubhouse II	12,701,567	12,701,567
Medical Center	4,628,399	4,628,399
Physical Properties, Warehouse, and Office	764,772	764,772
Golf Course	1,450,196	1,450,196
Golf Maintenance	341,000	341,000
Golf Pro Shop	372,058	372,058
Donated Land	490,000	490,000
Main Gatehouse	110,000	110,000
Connecticut Avenue Gate	187,932	187,932
Norbeck Gate	<u>128,339</u>	<u>128,339</u>
	<u>\$ 25,362,483</u>	<u>\$ 25,362,483</u>

## Leisure World of Maryland Trust

### Notes to Financial Statements December 31, 2011 and 2010

#### 6. PROPERTY AND EQUIPMENT (CONTINUED)

Offsite Improvements - Montgomery Mutual, Inc., (the "Mutual") has decided to the Trust its offsite improvements with no consideration being paid by the Trust. These improvements are recorded at their approximate cost to the Mutual. These offsite improvements include underground utilities, drainage structures, the adjoining land, and the grading of grounds outside the boundaries of the Mutual.

#### 7. TRUST EQUITY

##### Operating Surplus (Deficit)

It is the practice of the Trust, through board action each year, to decide the disposition of any operating surplus or deficit and any unused or uncommitted amounts in the contingency fund at the end of the fiscal year (Note 5).

The net excess of revenues over expenses from operations for the years ended December 31, 2011 and 2010, consisted of the following:

	Community Facilities <u>Operations</u>	Combined Mutual <u>Operations</u>	<u>Total</u>
<b><u>December 31, 2011</u></b>			
<b>Total Revenues</b>	\$ 12,734,129	\$ 5,935,508	\$ 18,669,637
<b>Total Operating Expenses</b>	<u>12,687,792</u>	<u>5,950,090</u>	<u>18,637,882</u>
<b>Excess (Deficiency) of Revenues over Expenses from Operations - Amount Due to (from) Operating Surplus (Deficit)</b>	<b>\$ <u>46,337</u></b>	<b>\$ <u>(14,582)</u></b>	<b>\$ <u>31,755</u></b>
 <u>December 31, 2010</u>			
Total Revenues	\$ 12,123,900	\$ 5,512,843	\$ 17,636,743
Total Operating Expenses	<u>12,096,329</u>	<u>5,537,521</u>	<u>17,633,850</u>
Excess (Deficiency) of Revenues over Expenses from Operations - Amount Due to (from) Operating Surplus (Deficit)	\$ <u>27,571</u>	\$ <u>(24,678)</u>	\$ <u>2,893</u>



## **Leisure World of Maryland Trust**

### **Notes to Financial Statements December 31, 2011 and 2010**

#### **7. TRUST EQUITY (CONTINUED)**

##### **Reserves**

The governing documents of LWCC (Trust Agreements) were amended in 2005 to allow for the accumulation of reserve funds for future major repairs and replacements; however, LWCC continues to maintain the Trust assets by budgeting funds for planned property maintenance on an annual basis. The 2012 budget continues to follow this practice.

Funding of \$1,373,950 and \$1,395,616 was budgeted and contributed to the Property Maintenance Fund as part of the maintenance plan for 2011 and 2010, respectively.

##### **Mutuals' Investment in the Trust**

Prior to January 1, 1983, at the time of its settlement, each new unit was required to contribute a stipulated amount to the Trust. This amount represented the Mutuals' investment in the Trust. Effective January 1, 1983, the amount of this contribution is allocated to the New Sales Facility Fund.

##### **Community Facilities Equity**

This account represents each unit's one-time contribution to the Trust at the time of the unit's settlement. This amount is representative of the Mutuals' allocable shares of the community facilities under the Trust's control.

##### **Valuation Equity**

At the time of the transfer of the golf course, Rossmoor Construction Corporation transferred several buildings, parcels of land, and streets to the Community with no additional cash outlay by the Community. The Trust valued these assets at \$490,000. During 1991 and 1990, portions of these donated community facilities were renovated and sold. The estimated cost of the Community's facilities sold in 1991 and 1990 was \$45,000 and \$40,500, respectively. These amounts were removed from the valuation equity leaving a balance of \$404,500 at December 31, 1991. The balance remained \$404,500 at December 31, 2011 and 2010.

## Leisure World of Maryland Trust

### Notes to Financial Statements December 31, 2011 and 2010

#### 8. LEASES

The Trust is a lessor of space within the Community, as discussed below.

In 2009, the bank branch lease was extended for a five-year period commencing on January 1, 2009, with an additional five-year renewal option. The annual rental for this space is subject to annual increases based on a percentage of the annual increase in the Consumer Price Index, with a minimum increase of 2% per year under the lease term. Rent charged under the lease was \$118,277 and \$115,958 in 2011 and 2010, respectively.

Effective February 1, 2010, LWMC entered into an agreement to lease office space to Weichert Realtors for a period of five years. The agreement calls for payments of \$40,000 in year one, \$46,000 in year two, and \$50,000 in years three, four, and five. During 2011 and 2010, the total revenue earned from the space was \$45,500 and \$36,663, respectively.

In 2007, LWMC finished the second floor of the Medical Center at 3305 North Leisure World Boulevard and leased it to Atlantic Physical Therapy and Rehabilitations, Inc., (APT). The lease commenced on November 1, 2007, and expired on November 1, 2010. The lease was extended for a three-year period effective November 1, 2010. Lease terms require a rent of \$7,500 monthly or \$90,000 annually. Rental revenue from this tenant was \$90,000 for 2011 and 2010, respectively.

Prior to May 17, 1993, the Trust leased space for the operation of a post office at \$1 per year. Effective May 17, 1993, LWMC entered into an agreement with the United States Postal Service (USPS) for LWMC to operate the Leisure World Post Office. The USPS pays an annual fee of \$10,000 for LWMC to operate the facility.

The space leased to the bank, Weichert Realtors, and the USPS are within the Administration Building, which cost \$631,007 and has an accumulated depreciation of \$631,007. The space leased to APT is part of the Medical Center, which cost \$4,628,399 and has an accumulated depreciation of \$2,430,062.

Minimum lease payments to be received are as follows:

<u>For the Years Ending December 31,</u>	
2012	\$ 260,309
2013	248,056
2014	175,517
2015	<u>4,167</u>
	<u>\$ 688,049</u>

## Leisure World of Maryland Trust

### Notes to Financial Statements December 31, 2011 and 2010

#### 8. LEASES (CONTINUED)

The Trust is the lessee under several operating leases for equipment. Lease terms range from three to five years. For the years ended December 31, 2011 and 2010, rental and operating costs expense totaled \$728,411 and \$710,718, respectively. The equipment rental expense reported in the accompanying statements of revenues and expenses excludes amounts allocated to the Mutuels but includes interdepartmental rental fees, before eliminations. For the years ended December 31, 2011 and 2010, equipment lease payments to vendors totaled \$228,763 and \$218,678, respectively.

Future minimum lease payments are as follows:

For the Years Ending December 31,

2012	\$	90,801
2013		82,422
2014		31,544
2015		<u>1,548</u>
Total	\$	<u>206,315</u>

#### 9. PENSION PLAN

The Trust maintains a defined contribution pension plan. The Internal Revenue Service advised the Trust on December 1, 1986, that the Plan qualified under Section 401(a) of the Internal Revenue Code. Contributions made to the Plan are, therefore, exempt from federal income taxes.

An employee must be at least 21 years of age and must be employed at least one year to be eligible for participation in this Plan. The Plan is funded by employee and employer contributions. Employees may contribute up to the maximum allowed under Internal Revenue Service regulations. The employer contributes a matching amount up to 4% of the employee's gross salary. The employer's contribution represents the pension expense for the period. Employer contributions to the Plan for the years ended December 31, 2011 and 2010, were \$264,627 and \$279,717, respectively, and are reflected as part of employee benefits in the statements of revenues and expenses.

## **Leisure World of Maryland Trust**

### **Notes to Financial Statements December 31, 2011 and 2010**

#### **10. INCOME TAXES**

The Trust files fiduciary tax returns for both federal and Maryland income tax purposes. During 2011 and 2010, the Trust did not incur any liability for federal and Maryland income taxes due to its net operating losses for tax purposes in prior years. The Trust has net operating loss carryovers of approximately \$2,633,870 expiring between 2012 and 2024. The deferred tax asset associated with the net operating loss carryovers is \$1,119,395 as of December 31, 2011. Because of the unlikelihood of realization of any benefit from the loss carryovers, the Trust also recognizes a deferred tax asset valuation allowance in the same amount. The deferred tax asset valuation allowance decreased by \$152,735 from \$1,272,130, because net operating loss carryforwards expired in 2011.

#### **11. COMMITMENTS AND CONTINGENCIES**

##### **Commitments**

A contract to receive landscaping maintenance and snow removal services effective January 1, 2007, was awarded by the Trust, along with the Mutuals, to the landscape company McFall & Berry. The term of the agreement was from January 1, 2007, through December 31, 2009, with a three-year renewal option. The contract may be adjusted in the event that a Mutual is deleted from the contract agreement. During the term of the contract and during any renewal term thereafter, either party may give written notice of termination without cause at least 90 days prior to termination or with cause at least 30 days prior to the date on which termination shall be effective.

Effective January 1, 2010, the Trust extended its contract with McFall & Berry for a period of three years. The contract requires payments of \$1,155,009 and \$1,178,109 for the years ending December 31, 2011 and 2012, respectively.

#### **12. SUBSEQUENT EVENTS**

The Trust has evaluated subsequent events through March 27, 2012, the date on which the financial statements were available to be issued.



## Independent Auditors' Report on Supplementary Information

Leisure World Community Corporation, Trustee  
Leisure World of Maryland Trust  
Silver Spring, Maryland

We have audited the financial statements of Leisure World of Maryland Trust as of and for the year ended December 31, 2011, and our report thereon dated March 27, 2012, which expressed an unqualified opinion on those financial statements, appears preceding page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 2011 supplementary information in the schedule of cost center revenues and expenses on page 19 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Trust's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2011 financial statements as a whole. The 2010 supplementary information in the schedule of cost center revenues and expenses on page 20 was subjected to the auditing procedures applied in the 2010 audit of the financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2010 financial statements as a whole.

*Councilor, Buchanan + Mitchell, P.C.*

Bethesda, Maryland  
March 27, 2012

Certified Public Accountants

**Leisure World of Maryland Trust**

**Schedule of Cost Center Revenues and Expenses  
For the Year Ended December 31, 2011**

	Revenues	Costs of Revenues	Net Revenues	Operating Expenses	Excess of Operating Expenses (over) under Net Revenues	Assessments	Excess of Revenues over (under) Expenses from Operations
Administration	\$ 477,303	\$ -	\$ 477,303	\$ 3,306,274	\$ (2,828,971)	\$ 2,990,207	\$ 161,236
Clubhouse I	353,375	(79,903)	273,472	951,396	(677,924)	653,034	(24,890)
Clubhouse II	154,021	(79,015)	75,006	771,750	(696,744)	659,368	(37,376)
Food Service	24,000	-	24,000	146,048	(122,048)	132,960	10,912
Medical Center	3,454,520	(1,920,502)	1,534,018	1,950,695	(416,677)	365,677	(51,000)
Pharmacy	1,512,346	(1,237,311)	275,035	352,969	(77,934)	59,123	(18,811)
Nurse Service	57,715	-	57,715	253,158	(195,443)	207,068	11,625
Social Service	60,000	-	60,000	268,531	(208,531)	210,544	2,013
PPD - Management	795,299	-	795,299	840,272	(44,973)	52,256	7,283
PPD - Grounds Maintenance	-	-	-	1,305,367	(1,305,367)	1,329,099	23,732
Special Projects	402,634	(57,363)	345,271	379,746	(34,475)	6,001	(28,474)
Refuse/Recycling	88,977	-	88,977	644,328	(555,351)	582,396	27,045
Vehicle	642,920	(56,619)	586,301	573,337	12,964	-	12,964
Janitorial	412,276	-	412,276	412,276	-	-	-
After Hours Maintenance	153,607	(21,016)	132,591	192,353	(59,762)	47,697	(12,065)
Electrical Maintenance	447,251	(90,113)	357,138	348,854	8,284	5,003	13,287
Plumbing Maintenance	933,440	(339,726)	593,714	608,437	(14,723)	9,996	(4,727)
Carpentry Maintenance	392,329	(136,182)	256,147	291,048	(34,901)	5,000	(29,901)
HVAC Maintenance	690,957	(235,150)	455,807	467,838	(12,031)	7,999	(4,032)
Appliance Maintenance	710,598	(401,294)	309,304	327,692	(18,388)	6,001	(12,387)
Cable Television	-	-	-	1,683,337	(1,683,337)	1,683,852	515
Bus Transportation	9,210	-	9,210	305,000	(295,790)	288,386	(7,404)
Supplemental Transportation	30,987	-	30,987	182,668	(151,681)	144,660	(7,021)
Security	47,400	-	47,400	1,236,606	(1,189,206)	1,237,573	48,367
Community Street Lights	-	-	-	175,411	(175,411)	149,000	(26,411)
Golf Course Maintenance	245,640	-	245,640	502,592	(256,952)	233,201	(23,751)
Golf Pro Shop	82,661	(11,492)	71,169	159,899	(88,730)	89,756	1,026
<b>Total</b>	<u>\$ 12,179,466</u>	<u>\$ (4,665,686)</u>	<u>\$ 7,513,780</u>	<u>\$ 18,637,882</u>	<u>\$ (11,124,102)</u>	<u>\$ 11,155,857</u>	<u>\$ 31,755</u>

**Leisure World of Maryland Trust**

**Schedule of Cost Center Revenues and Expenses  
For the Year Ended December 31, 2010**

	Revenues	Costs of Revenues	Net Revenues	Operating Expenses	Excess of Operating Expenses (over) under Net Revenues	Assessments	Excess of Revenues over (under) Expenses from Operations
Administration	\$ 428,473	\$ -	\$ 428,473	\$ 3,269,381	\$ (2,840,908)	\$ 2,878,735	\$ 37,827
Clubhouse I	362,856	(78,076)	284,780	938,630	(653,850)	665,051	11,201
Clubhouse II	150,907	(82,185)	68,722	738,025	(669,303)	643,855	(25,448)
Food Service	24,720	-	24,720	152,039	(127,319)	129,460	2,141
Medical Center	3,388,651	(1,826,440)	1,562,211	1,957,362	(395,151)	329,916	(65,235)
Pharmacy	1,526,231	(1,248,559)	277,672	351,328	(73,656)	33,464	(40,192)
Nurse Service	54,489	-	54,489	239,091	(184,602)	195,095	10,493
Social Service	60,000	-	60,000	260,330	(200,330)	225,731	25,401
PPD - Management	759,123	-	759,123	823,351	(64,228)	79,562	15,334
PPD - Grounds Maintenance	-	-	-	1,293,607	(1,293,607)	1,301,499	7,892
Special Projects	410,680	(51,304)	359,376	368,452	(9,076)	-	(9,076)
Refuse/Recycling	88,997	-	88,997	623,306	(534,309)	582,005	47,696
Vehicle	616,576	(60,401)	556,175	563,426	(7,251)	-	(7,251)
Janitorial	411,396	-	411,396	411,396	-	-	-
After Hours Maintenance	149,712	(20,046)	129,666	180,874	(51,208)	49,590	(1,618)
Electrical Maintenance	424,672	(83,558)	341,114	346,744	(5,630)	7,000	1,370
Plumbing Maintenance	887,867	(315,587)	572,280	567,763	4,517	8,000	12,517
Carpentry Maintenance	474,017	(179,650)	294,367	320,040	(25,673)	6,000	(19,673)
HVAC Maintenance	733,860	(248,781)	485,079	487,451	(2,372)	8,000	5,628
Appliance Maintenance	594,133	(304,521)	289,612	315,773	(26,161)	6,000	(20,161)
Cable Television	-	-	-	819,238	(819,238)	825,063	5,825
Bus Transportation	10,200	-	10,200	286,540	(276,340)	288,107	11,767
Supplemental Transportation	29,526	-	29,526	157,207	(127,681)	130,358	2,677
Security	48,440	-	48,440	1,296,162	(1,247,722)	1,311,149	63,427
Community Street Lights	-	-	-	170,440	(170,440)	134,000	(36,440)
Golf Course Maintenance	261,708	-	261,708	521,667	(259,959)	220,295	(39,664)
Golf Pro Shop	103,782	(20,080)	83,702	174,227	(90,525)	96,980	6,455
<b>Total</b>	<u>\$ 12,001,016</u>	<u>\$ (4,519,188)</u>	<u>\$ 7,481,828</u>	<u>\$ 17,633,850</u>	<u>\$ (10,152,022)</u>	<u>\$ 10,154,915</u>	<u>\$ 2,893</u>