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Independent Auditor's Report

To the Board of Directors of
Tanyard Springs Homeowners Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Tanyard Springs Homeowners Association, Inc., which comprise the balance sheet as of December 31, 2020, and the related statements of income, members' equity and cash flows for the year 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 audit. 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 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tanyard Springs Homeowners Association, Inc. as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Assessments Receivable

Tanyard Springs Homeowners Association, Inc. raises funds for its operations and major repairs and replacements through assessment of its members. As explained in Note 6, as of December 31, 2020, the Association had an assessments receivable balance of \$147,788 (before deducting the allowance for doubtful assessments of \$82,610). It is uncertain whether the receivables are actually collectible. The inability to collect owner assessments impacts adversely on the Association's viability. In order for the Association to maintain financial stability and to operate effectively, it must raise and be able to collect sufficient funds from its members to meet its operational and replacement reserve needs. Our opinion on the financial statements is not modified with respect to this matter.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that information on future major repairs and replacements on page 12 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, which 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.

Goldklang Group CPAs, P.C.

Reston, Virginia
September 23, 2021

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET
DECEMBER 31, 2020

ASSETS

Cash and Cash Equivalents	\$	1,058,421
Interest-Bearing Deposits		1,125,000
Assessments Receivable - Net		65,178
Accrued Interest		4,287
Income Taxes Receivable		5,873
Prepaid Expenses		<u>4,345</u>
 Total Assets	 \$	 <u><u>2,263,104</u></u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$	112,812
Prepaid Assessments		<u>55,394</u>
Total Liabilities	\$	<u>168,206</u>
 Replacement Reserves	 \$	 1,447,552
Snow Reserve		119,333
Unappropriated Members' Equity		<u>528,013</u>
Total Members' Equity	\$	<u>2,094,898</u>
 Total Liabilities and Members' Equity	 \$	 <u><u>2,263,104</u></u>

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020

INCOME:

Residential Assessments	\$	1,367,040
Townhome Assessments		180,432
Recreation Assessments		21,047
Room Rental Fees		12,456
Late and Legal Fees		51,062
Interest		30,818
Other		1,817
		<hr/>
Total Income	\$	<u>1,664,672</u>

EXPENSES:

Management	\$	106,800
Legal, Audit and Tax Preparation		123,804
Reimbursed Payroll Costs		139,546
Consulting / Engineering		300
Insurance		16,654
Administrative		86,341
Utilities		106,496
Pet Waste Station Services		3,339
Grounds Maintenance		227,127
Snow Removal		19,144
General Repair and Maintenance		96,244
Security		12,100
Pool		26,560
Community Center		16,430
Storm Water Fees		27,785
Bad Debt		10,410
Income Taxes		7,756
		<hr/>
Total Expenses	\$	<u>1,026,836</u>

Net Income before Contribution to Reserves	\$	637,836
Contribution to Reserves		<u>(348,544)</u>
		<hr/>
Net Income	\$	<u><u>289,292</u></u>

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Replacement Reserves</u>	<u>Snow Reserve</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2019	\$ 1,414,189	\$ 119,333	\$ 238,721	\$ 1,772,243
Additions:				
Contribution to Reserves	348,544			348,544
Net Income			289,292	289,292
Deductions:				
Drainage	(29,386)			(29,386)
Electric	(10,459)			(10,459)
Fitness Equipment	(92,046)			(92,046)
Furnace	(2,592)			(2,592)
Gym Televisions	(1,486)			(1,486)
Keys and Locks	(5,359)			(5,359)
Painting	(10,800)			(10,800)
Playground	(1,852)			(1,852)
Pool	(119,800)			(119,800)
Pool Network	(9,975)			(9,975)
Sidewalk	(4,800)			(4,800)
Sinkhole	(26,626)			(26,626)
Balance as of December 31, 2020	<u>\$ 1,447,552</u>	<u>\$ 119,333</u>	<u>\$ 528,013</u>	<u>\$ 2,094,898</u>

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income	\$	289,292
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Bad Debt Expense		10,410
Decrease (Increase) in:		
Assessments Receivable		(30,820)
Accrued Interest		762
Income Taxes Receivable		(3,355)
Prepaid Expenses		7,419
Increase (Decrease) in:		
Accounts Payable		417
Prepaid Assessments		(24,309)
Net Cash Flows from Operating Activities	\$	249,816

CASH FLOWS FROM INVESTING ACTIVITIES:

Received from Assessments (Reserves)	\$	317,726
Received from Interest (Reserves)		30,818
Disbursed for Reserve Expenditures		(281,591)
Received from Interest-Bearing Deposits		501,736
Disbursed for Interest-Bearing Deposits		(500,000)
Net Cash Flows from Investing Activities	\$	68,689
Net Change in Cash and Cash Equivalents	\$	318,505
Cash and Cash Equivalents at Beginning of Year		739,916
Cash and Cash Equivalents at End of Year	\$	1,058,421

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash Paid for Income Taxes	\$	11,600
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See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 - NATURE OF OPERATIONS:

The Association is organized under the laws of the State of Maryland for the purposes of maintaining and preserving the common property of the Association. The Association is located in Glen Burnie, Maryland and consists of 1,424 homes. The Board of Directors administers the Association's operations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

A) Method of Accounting - The financial statements are presented on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

B) Member Assessments - Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its assessments are satisfied over time on a daily pro-rata basis using the input method. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from members. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. The Association treats uncollectible assessments as credit losses. Methods, inputs, and assumptions used to evaluate when assessments are considered uncollectible include consideration of past experience and susceptibility to factors outside the Association's control.

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 since the property cannot be disposed of at the discretion of the Board of Directors. Common property includes, but is not limited to, the land, recreation facilities and site improvements.

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.

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(CONTINUED)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

F) Depreciation - Fixed assets are carried at cost. Depreciation was computed on a straight-line basis over the estimated useful lives of the assets. Items capitalized are depreciated through the statement of income.

NOTE 3 - REPLACEMENT RESERVES:

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

The Association had a replacement reserve study conducted by Becht Engineering in 2019. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The study recommends a contribution to reserves of \$311,629 from assessments and \$16,012 from interest for 2020. For 2020, the Association budgeted to contribute \$317,726 to replacement reserves. Additionally, during 2020, the Association contributed interest income of \$30,818 to replacement reserves.

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 Board of Directors, on behalf of the Association may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As of December 31, 2020, the Association had designated replacement reserves as follows:

Townhome Replacement Reserves	\$ 809,049
General Replacement Reserves	636,003
Community Room Reserves	<u>2,500</u>
Total Replacement Reserves	<u>\$ 1,447,552</u>

These designated replacement reserves were funded by cash and interest-bearing deposits.

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(CONTINUED)

NOTE 4 - INCOME TAXES:

For income tax purposes, the Association may elect annually to file either as an exempt homeowners association or as an association taxable as a corporation. As an exempt homeowners association, 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 2020, the income taxes were calculated using the exempt method.

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. The Association's federal and state tax returns for the past three years remain subject to examination by the Internal Revenue Service and the State of Maryland.

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of December 31, 2020, the Association maintained funds in the following manner:

<u>Institution</u>	<u>Cash and Cash Equivalents</u>	<u>Interest- Bearing Deposits</u>
NCB	\$ 69,396	\$ -
Cashier's Check	331,206	
Capital Bank	240,973	
Sandy Spring	94,718	
Morgan Stanley (Various Institutions)	<u>322,128</u>	<u>1,125,000</u>
Totals	<u>\$ 1,058,421</u>	<u>\$ 1,125,000</u>

Balances at banks are insured by the FDIC for up to \$250,000 per financial institution. Amounts in excess of the insured limits were approximately \$319,215 as of December 31, 2020.

The cashier's check for closing the Pacific Premier Bank account of \$331,206 was a deposit in transit to open a Congressional account, which cleared on January 7, 2021.

Cash and securities held at a SIPC member brokerage firm are insured by the SIPC for up to \$500,000, which includes \$250,000 limit for cash. The Association maintains funds in a brokerage account which are subject to SIPC limits.

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(CONTINUED)

NOTE 6 - ASSESSMENTS RECEIVABLE - NET:

The Association utilizes the allowance method of accounting for bad debt. Individual receivables are written off as a loss when a determination is made that they are non-collectible. Under the allowance method, collection efforts may continue and recoveries of amounts previously written off are recognized as income in the year of collection.

Assessments Receivable	\$ 147,788
Less: Allowance for Doubtful Assessments	<u>(82,610)</u>
Assessments Receivable - Net	<u><u>\$ 65,178</u></u>

NOTE 7 - FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION:

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate—Common Interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association adopted the new guidance as of March 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning unappropriated members' equity balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of March 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment income, as previously described.

The adoption of the new revenue recognition guidance resulted in no changes to balances as of March 1, 2019.

NOTE 8 - OFFICE EQUIPMENT-NET:

Office equipment was depreciated over an estimated useful life of three years using the straight-line method. The depreciation expense for 2020 was \$0.

Office Equipment	\$ 2,819
Less: Accumulated Depreciation	<u>(2,819)</u>
Office Equipment - Net	<u><u>\$ -</u></u>

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(CONTINUED)

NOTE 9 - SNOW RESERVE:

The Association established a snow reserve during 2019 through an inter-equity transfer of \$119,333 from unappropriated members' equity. This reserve was established to set aside unused budgeted snow removal funds for future snow removal costs. As of December 31, 2020, the balance in the snow reserve was \$119,333. This reserve was funded by cash and interest-bearing deposits.

NOTE 10 - RELATED PARTY TRANSACTIONS:

The Association was managed by Community Management Corporation (CMC). CMC is owned by Associa. Officers of Associa are stockholders in Pacific Premier Bank. In addition, the President/Chief Executive Officer of Associa serves on the bank's board of directors. The Association maintains funds at Pacific Premier Bank.

NOTE 11 - REIMBURSED PAYROLL AND RELATED COSTS:

CMC and Abaris Realty, Inc. utilize central management payroll systems, whereby payroll returns were filed under the management agent's name and federal identification number. In addition to the payment of management fees, the Association reimbursed management for wages, payroll taxes, workers' compensation and health insurance for employees that performed work for the Association.

NOTE 12 - CHANGE IN MANAGEMENT:

Effective July 1, 2020, Abaris Realty, Inc. became the new management company.

NOTE 13 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through September 23, 2021, the date the financial statements were available to be issued.

Subsequent to year-end, the Association incurred replacement reserve expenditures of \$106,778.

Subsequent to year-end, the Association incurred snow removal and legal costs of \$349,916 and \$69,309, respectively. For 2021, the Association budgeted \$158,500 for snow removal and \$25,000 for legal.

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2020
(UNAUDITED)

The Association had a replacement reserve study conducted by Becht Engineering during 2019 to estimate the remaining useful lives and the replacement costs of the components of 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 estimated replacement costs presented below do not take into account the effects of inflation between the date of the study and the date the components will require repair or replacement; however, the Association's replacement reserve study does take inflation into consideration when evaluating future expenditures and recommended contributions to reserves.

The following has been extracted from the Association's replacement reserve study and presents significant information about the components of common property.

<u>Component</u>	<u>2019 Estimated Remaining Useful Life (Years)</u>	<u>2019 Estimated Replacement Cost</u>
Architectural	1-16	\$ 50,858
Electrical	11-16	32,500
Mechanical	6	42,400
Site	1-31	4,406,163
Miscellaneous	1-11	347,575