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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, 2019, and the related statements of income, members' equity and cash flows for the ten months 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, 2019, and the results of its operations and its cash flows for the ten months then ended in conformity with accounting principles generally accepted in the United States of America.

## **Disclaimer of Opinion on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that 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  
August 14, 2020

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.  
BALANCE SHEET  
DECEMBER 31, 2019

ASSETS

Cash and Cash Equivalents	\$ 739,916
Interest-Bearing Deposits	1,126,736
Assessments Receivable - Net	44,768
Accrued Interest	5,049
Income Taxes Receivable	2,518
Prepaid Expenses	<u>11,764</u>
 Total Assets	 <u>\$ 1,930,751</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 78,805
Prepaid Assessments	<u>79,703</u>
Total Liabilities	<u>\$ 158,508</u>
 Replacement Reserves	 \$ 1,414,189
Snow Reserve	119,333
Unappropriated Members' Equity	<u>238,721</u>
Total Members' Equity	<u>\$ 1,772,243</u>
 Total Liabilities and Members' Equity	 <u>\$ 1,930,751</u>

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.  
STATEMENT OF INCOME  
FOR THE TEN MONTHS ENDED DECEMBER 31, 2019

INCOME:

Residential Assessments	\$ 1,139,200
Townhome Assessments	150,360
Recreation Assessments	11,409
Room Rental Fees	15,488
Late and Legal Fees	37,517
Interest	24,741
Other	13,730
Total Income	<u>\$ 1,392,445</u>

EXPENSES:

Management	\$ 85,584
Legal, Audit and Tax Preparation	87,358
Payroll and Related	131,861
Consulting / Engineering	300
Insurance	13,117
Administrative	63,578
Activities	5,635
Utilities	85,476
Pet Waste Station Services	1,186
Grounds Maintenance	200,497
General Repair and Maintenance	87,135
Security	60,209
Pool	87,915
Community Center	30,079
Storm Water Fees	15,073
Bad Debt	21,887
Income Taxes	6,294
Total Expenses	<u>\$ 983,184</u>
Net Income before Contribution to Reserves	\$ 409,261
Contribution to Reserves	<u>(192,918)</u>
Net Income	<u>\$ 216,343</u>

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.  
STATEMENT OF MEMBERS' EQUITY  
FOR THE TEN MONTHS ENDED DECEMBER 31, 2019

	<u>Replacement Reserves</u>	<u>Snow Reserve</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of February 28, 2019	\$ 1,146,596	\$ -	\$ 241,711	\$ 1,388,307
Additions:				
Contribution to Reserves	192,918			192,918
Net Income			216,343	216,343
Inter-Equity Transfers	100,000	119,333	(219,333)	
Deduction:				
Tennis Court Resurfacing	<u>(25,325)</u>			<u>(25,325)</u>
Balance as of December 31, 2019	<u>\$ 1,414,189</u>	<u>\$ 119,333</u>	<u>\$ 238,721</u>	<u>\$ 1,772,243</u>

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
FOR THE TEN MONTHS ENDED DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income	\$	216,343
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Bad Debt Expense		21,887
Decrease (Increase) in:		
Assessments Receivable		(30,554)
Accrued Interest		811
Income Taxes Receivable		(2,518)
Accounts Receivable - Other		(7,650)
Prepaid Expenses		(3,516)
Increase (Decrease) in:		
Accounts Payable		(23,739)
Income Taxes Payable		(1,988)
Prepaid Assessments		6,922
Net Cash Flows from Operating Activities	<u>\$</u>	<u>175,998</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Received from Assessments (Reserves)	\$	192,918
Disbursed for Reserve Expenditures		(25,325)
Received from Interest-Bearing Deposits		150,000
Disbursed for Interest-Bearing Deposits		<u>(275,477)</u>
Net Cash Flows from Investing Activities	<u>\$</u>	<u>42,116</u>
Net Change in Cash and Cash Equivalents	\$	218,114
Cash and Cash Equivalents at Beginning of Period		<u>521,802</u>
Cash and Cash Equivalents at End of Period	<u>\$</u>	<u>739,916</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash Paid for Income Taxes	<u>\$</u>	<u>11,000</u>
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See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019

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 variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. Prior to the adoption of ASU 2014-09, the Association recognized revenue when earned.

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, 2019  
(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 replacement reserve studies conducted by Becht Engineering in 2018 and 2019. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on the 2019 study.

The 2018 study recommends a contribution to reserves of \$240,747 from assessments and \$11,518 from interest for the ten months ended December 31, 2019. For the ten months ended December 31, 2019, the Association budgeted to contribute \$192,918 to replacement reserves. In addition, during the ten months ended December 31, 2019, the Association elected to transfer \$100,000 from unappropriated members' equity 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, 2019, the Association had designated replacement reserves as follows:

Townhome Replacement Reserves	\$ 589,049
General Replacement Reserves	825,140
Total Replacement Reserves	<u>\$ 1,414,189</u>

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

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019  
(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 the ten months ended December 31, 2019, 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, 2019, the Association maintained funds in the following manner:

<u>Institution</u>	<u>Cash and Cash Equivalents</u>	<u>Interest- Bearing Deposits</u>
Pacific Premier	\$ 486,797	\$ -
Sandy Spring		51,736
Morgan Stanley (Various Institutions)	<u>253,119</u>	<u>1,075,000</u>
Totals	<u>\$ 739,916</u>	<u>\$ 1,126,736</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 \$476,195 as of December 31, 2019. The Association's management agent has obtained excess insurance coverage for the Pacific Premier accounts to cover the funds in excess of the FDIC insurance limit of \$231,154 as of December 31, 2019.

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, 2019  
(CONTINUED)

NOTE 6 - ASSESSMENTS RECEIVABLE - NET / ACCOUNTS RECEIVABLE - OTHER - 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	\$ 128,900
Less: Allowance for Doubtful Assessments	<u>(84,132)</u>
Assessments Receivable - Net	<u>\$ 44,768</u>
Accounts Receivable - Other	\$ 7,650
Less: Allowance for Doubtful Accounts	<u>(7,650)</u>
Accounts Receivable - Other - Net	<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 the ten months ended December 31, 2019 was \$0.

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019  
(CONTINUED)

NOTE 8 - OFFICE EQUIPMENT-NET: (CONTINUED)

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

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, 2019, 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 is 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 - PAYROLL AND RELATED COSTS:

CMC utilizes a central management payroll system, 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 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 14, 2020, the date the financial statements were available to be issued.

Subsequent to period-end, the Association changed management agents. Effective July 1, 2020, Abaris Realty, Inc. became the new management company.

Subsequent to period-end, the Association signed a contract for pool repairs in the amount of \$101,101 and approved the replacement of fitness equipment and flooring in the amount of \$86,046. These projects are being funded through replacement reserves.

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2019  
(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