

**Principals**

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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 sheets as of February 28, 2017 and February 29, 2016, and the related statements of income, members' equity and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

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 February 28, 2017 and February 29, 2016, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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, who 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

March 2, 2018

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEETS

FEBRUARY 28, 2017 AND FEBRUARY 29, 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 379,148	\$ 352,495
Interest-Bearing Deposits	308,971	307,113
Assessments Receivable - Net	35,603	22,012
Accounts Receivable - Owner One-Time Assessments	7,140	2,802
Recreation Assessments Receivable	8,603	8,570
Prepaid Expenses	5,207	1,375
Office Equipment - Net	<u>-</u>	<u>939</u>
 Total Assets	 <u>\$ 744,672</u>	 <u>\$ 695,306</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 78,543	\$ 258,525
Prepaid Assessments	<u>71,331</u>	<u>58,483</u>
Total Liabilities	<u>\$ 149,874</u>	<u>\$ 317,008</u>
 Replacement Reserves	 \$ 748,629	 \$ 592,166
Unappropriated Members' Equity (Deficit)	<u>(153,831)</u>	<u>(213,868)</u>
Total Members' Equity	<u>\$ 594,798</u>	<u>\$ 378,298</u>
 Total Liabilities and Members' Equity	 <u>\$ 744,672</u>	 <u>\$ 695,306</u>

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016

	2017	2016
<u>INCOME:</u>		
Residential Assessments	\$ 1,028,351	\$ 855,572
Townhome Assessments	151,872	140,856
Owner One-Time Assessments	75,468	60,582
Recreation Assessments	14,890	17,002
Room Rental Fees	16,125	16,050
Late Fees	17,012	14,924
Interest	2,192	1,811
Other	4,897	4,180
Total Income	\$ 1,310,807	\$ 1,110,977
 <u>EXPENSES:</u>		
Management	\$ 118,244	\$ 121,892
Legal, Audit and Tax Preparation	163,390	127,637
Payroll and Related	139,071	141,516
Consulting / Engineering	3,273	1,943
Insurance	16,679	16,190
Administrative	99,693	71,625
Activities	7,478	14,794
Utilities	90,386	78,272
Pet Waste Station Services	28,958	26,766
Grounds Maintenance	203,279	175,013
Snow Removal	25,520	246,768
General Repair and Maintenance	51,958	43,955
Pool	63,150	66,954
Community Center	53,471	49,024
Depreciation	939	940
Bad Debt	28,818	2,010
Total Expenses	\$ 1,094,307	\$ 1,185,299
Net Income (Loss) before Contribution to Reserves	\$ 216,500	\$ (74,322)
Contribution to Reserves	(156,463)	(79,359)
Net Income (Loss)	\$ 60,037	\$ (153,681)

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity (Deficit)</u>	<u>Total Members' Equity</u>
Balance as of February 28, 2015	\$ 517,756	\$ (60,187)	\$ 457,569
Addition:			
Contribution to Reserves	79,359		79,359
Deductions:			
Asphalt	(3,200)		(3,200)
Door Control Panel	(1,749)		(1,749)
Net Loss		(153,681)	(153,681)
Balance as of February 29, 2016	\$ 592,166	\$ (213,868)	\$ 378,298
Additions:			
Contribution to Reserves	156,463		156,463
Net Income		60,037	60,037
Balance as of February 28, 2017	<u>\$ 748,629</u>	<u>\$ (153,831)</u>	<u>\$ 594,798</u>

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016

	2017	2016
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	\$ 60,037	\$ (153,681)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Bad Debt Expense	28,818	2,010
Depreciation	939	940
Decrease (Increase) in:		
Assessments Receivable	(42,409)	(4,320)
Accrued Interest	-	164
Accounts Receivable - Owner One-Time Assessments	(4,338)	(1,458)
Recreation Assessments Receivable	(33)	(8,570)
Prepaid Expenses	(3,833)	(315)
Utility Deposits	-	4,050
Increase (Decrease) in:		
Accounts Payable	(179,981)	157,585
Prepaid Assessments	12,848	10,414
Net Cash Flows from Operating Activities	\$ (127,952)	\$ 6,819
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 156,463	\$ 79,359
Disbursed for Reserve Expenditures	-	(4,949)
Disbursed for Interest-Bearing Deposits	(1,858)	(1,611)
Net Cash Flows from Investing Activities	\$ 154,605	\$ 72,799
Net Change in Cash and Cash Equivalents	\$ 26,653	\$ 79,618
Cash and Cash Equivalents at Beginning of Year	352,495	272,877
Cash and Cash Equivalents at End of Year	\$ 379,148	\$ 352,495

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2017 AND FEBRUARY 29, 2016

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 will consist of 1,421 homes when fully developed. As of February 28, 2017, the Association consisted of 1,286 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 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 homeowners. The Association's policy is to assess late and interest charges and 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 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.

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

G) Reclassification - Certain amounts have been reclassified in the accompanying fiscal year 2016 financial statements to conform to the fiscal year 2017 presentation.

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2017 AND FEBRUARY 29, 2016
(CONTINUED)

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 during 2014. 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 \$81,740 for calendar year 2016. For fiscal year 2017, the Association budgeted to contribute \$156,463 to 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 February 28, 2017 and February 29, 2016, the Association had designated replacement reserves as follows:

	<u>2017</u>	<u>2016</u>
Townhome Replacement Reserves	\$ 301,006	\$ 213,250
General Replacement Reserves	<u>447,623</u>	<u>378,916</u>
Total Replacement Reserves	<u>\$ 748,629</u>	<u>\$ 592,166</u>

These designated replacement reserves were not fully funded due to the deficit in unappropriated members' equity.

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

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2017 AND FEBRUARY 29, 2016
(CONTINUED)

NOTE 4 - INCOME TAXES: (CONTINUED)

limitation that operating expenses are deductible only to the extent of income from members. For fiscal years 2017 and 2016, the income taxes were calculated using the exempt method, which resulted in no income tax liability.

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 February 28, 2017 the Association maintained funds in the following manner:

<u>Institution</u>	<u>Cash and Cash Equivalents</u>	<u>Interest- Bearing Deposits</u>
Pacific Premier	\$ 110,956	\$ -
Pacific Premier	98,842	
Morgan Stanley	169,350	
Washington First		205,937
Pacific Premier		103,034
	<u>\$ 379,148</u>	<u>\$ 308,971</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 \$51,876 and \$56,045 as of February 28, 2017 and February 29, 2016, respectively.

As of February 28, 2017 and February 29, 2016, the Association had \$24,161 and \$151,872, respectively, in the Pacific Premier Bank's repurchase agreement sweep account. The funds in the sweep account are backed by U.S. Government Securities; however, the account is not covered by FDIC insurance, or any other insurance. The funds are subject to investment risk, including possible loss of principal.

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
FEBRUARY 28, 2017 AND FEBRUARY 29, 2016
(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.

	2017	2016
Assessments Receivable	\$ 63,223	\$ 60,829
Less: Allowance for Doubtful Assessments	(27,620)	(38,817)
Assessments Receivable - Net	\$ 35,603	\$ 22,012

NOTE 7 - OWNER ONE-TIME ASSESSMENTS:

At settlement, the Association collects from each original purchaser a one-time assessment equal to twelve times the monthly assessment to provide working capital in the early stages of the community's operations. For fiscal years 2017 and 2016, the Association recognized one-time assessment income of \$75,468 and \$60,582, respectively.

NOTE 8 - OFFICE EQUIPMENT-NET:

Office equipment is being depreciated over an estimated useful life of three years using the straight-line method. The depreciation expense for fiscal years 2017 and 2016 was \$939 and \$940, respectively.

	2017	2016
Office Equipment	\$ 939	\$ 2,819
Less: Accumulated Depreciation	(939)	(1,880)
Office Equipment - Net	\$ -	\$ 939

NOTE 9 - RECREATION ASSESSMENTS:

The Association allows a neighboring community, Stonehouse Run Homeowners Association, to use the Association's recreational facilities. In return, the Association receives monthly recreation assessments from Stonehouse Run Homeowners Association. For fiscal years 2017 and 2016, the Association recognized \$14,890 and \$17,002, respectively, in recreation assessments.

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2017 AND FEBRUARY 29, 2016
(CONTINUED)

NOTE 10 - RELATED PARTY TRANSACTIONS:

The Association is managed by Community Management Corporation (CMC). During fiscal years 2017 and 2016, the Association paid CMC \$0 and \$16,837, respectively, for general repairs and maintenance. No amounts were owed to CMC as of February 28, 2017 and February 29, 2016 for these additional services.

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.

Associa also owns Associa OnCall, a company which provides casual labor services. During fiscal years 2017 and 2016, the Association paid Associa OnCall \$25,950 and \$4,328, respectively, for weekly repairs and maintenance. As of February 28, 2017 and February 29, 2016, \$1,282 and \$2,144, respectively, were owed to Associa OnCall for these services.

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 March 2, 2018, the date the financial statements were available to be issued.

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
FEBRUARY 28, 2017
(UNAUDITED)

The Association had a replacement reserve study conducted by Becht Engineering during 2014 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>2014 Estimated Remaining Useful Life (Years)</u>	<u>2014 Estimated Replacement Cost</u>
Architectural	6-16	\$ 43,882
Electrical	16-26	36,500
Mechanical	11	25,300
Site Items	6-46	2,746,909
Miscellaneous	6-16	327,000