



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, 2014 and 2013, 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, 2014 and 2013, 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 11 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.

Reston, Virginia
September 19, 2014

Goldklang Group CPAs, P.C.

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEETS

FEBRUARY 28, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 288,838	\$ 362,101
Interest-Bearing Deposits	302,850	201,488
Assessments Receivable - Net	12,920	10,992
Accrued Interest	970	283
Accounts Receivable - Owner One-Time Assessments	2,892	5,532
Recreation Assessments and Capital Contributions Receivable	1,605	-
Prepaid Expenses	18,899	3,878
Utility Deposits	<u>4,050</u>	<u>4,050</u>
 Total Assets	 <u>\$ 633,024</u>	 <u>\$ 588,324</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 150,423	\$ 63,044
Prepaid Assessments	<u>49,738</u>	<u>39,577</u>
Total Liabilities	<u>\$ 200,161</u>	<u>\$ 102,621</u>
 Replacement Reserves	 \$ 447,560	 \$ 302,900
Unappropriated Members' Equity (Deficit)	<u>(14,697)</u>	<u>182,803</u>
Total Members' Equity	<u>\$ 432,863</u>	<u>\$ 485,703</u>
 Total Liabilities and Members' Equity	 <u>\$ 633,024</u>	 <u>\$ 588,324</u>

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED FEBRUARY 28, 2014 AND 2013

	2014	2013
<u>INCOME:</u>		
General Assessments	\$ 716,510	\$ 581,897
Townhome Assessments	128,009	118,440
Owner One -Time Assessments	52,374	80,124
Recreation Assessments and Capital Contributions	6,168	-
Interest	2,409	2,162
Other	31,405	31,220
Total Income	\$ 936,875	\$ 813,843
 <u>EXPENSES:</u>		
Management	\$ 105,453	\$ 94,527
Legal, Audit and Tax Preparation	59,271	32,488
Payroll and Related	155,127	143,622
Consulting / Engineering	3,800	14,035
Insurance	16,905	9,597
Administrative	65,407	74,576
Activities	16,034	10,434
Utilities	45,616	41,205
Ground Maintenance	123,975	134,976
Snow Removal	166,353	20,509
General Repair and Maintenance	97,757	56,863
Pool	69,854	59,544
Community Center	51,224	47,177
Bad Debt	12,939	6,902
Total Expenses	\$ 989,715	\$ 746,455
Net Income before Contribution to Reserves	\$ (52,840)	\$ 67,388
Contribution to Reserves	(74,660)	(92,100)
Net Income (Loss)	\$ (127,500)	\$ (24,712)

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED FEBRUARY 28, 2014 AND 2013

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity (Deficit)</u>	<u>Total Members' Equity</u>
Balance as of February 29, 2012	\$ 210,800	\$ 207,515	\$ 418,315
Addition:			
Contribution to Reserves	92,100		92,100
Deduction:			
Net Loss		(24,712)	(24,712)
Balance as of February 28, 2013	\$ 302,900	\$ 182,803	\$ 485,703
Addition:			
Contribution to Reserves	74,660		74,660
Inter-Equity Transfer	70,000	(70,000)	
Deduction:			
Net Loss		(127,500)	(127,500)
Balance as of February 28, 2014	<u>\$ 447,560</u>	<u>\$ (14,697)</u>	<u>\$ 432,863</u>

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 28, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	\$ (127,500)	\$ (24,712)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Bad Debt Expense	12,939	6,902
Decrease (Increase) in:		
Assessments Receivable	(14,867)	(9,670)
Accrued Interest	(687)	(283)
Accounts Receivable - Owner One-Time Assessments	2,640	8,148
Recreation Assessments and Capital Contributions Receivable	(1,605)	-
Income Taxes Receivable	-	500
Prepaid Expenses	(15,021)	(1,843)
Utility Deposits	-	43
Increase (Decrease) in:		
Accounts Payable	87,379	(10,576)
Prepaid Assessments	10,161	8,507
Net Cash Flows from Operating Activities	<u>\$ (46,561)</u>	<u>\$ (22,984)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 74,660	\$ 92,100
Disbursed for Interest-Bearing Deposits	<u>(101,362)</u>	<u>(201,488)</u>
Net Cash Flows from Investing Activities	<u>\$ (26,702)</u>	<u>\$ (109,388)</u>
Net Change in Cash and Cash Equivalents	\$ (73,263)	\$ (132,372)
Cash and Cash Equivalents at Beginning of Year	<u>362,101</u>	<u>494,473</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 288,838</u></u>	<u><u>\$ 362,101</u></u>

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2014 AND 2013

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 currently consists of 1,012 homes. The Association will consist of 1,114 homes when fully developed. 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 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 to account 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.

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2014 AND 2013
(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 an engineer employed by Community Management Corporation during 2011. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The study recommends an annual contribution to reserves of \$74,615 for fiscal year 2014. For fiscal year 2014, the Association budgeted to contribute \$74,660 to reserves. In addition, the Association transferred \$70,000 from unappropriated members' equity 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, 2014 and 2013, the Association had designated \$447,560 and \$302,900, respectively, for replacement reserves. These designated replacement reserves were not fully funded as of February 28, 2014 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 limitation that operating expenses are deductible only to the extent of income from members. For fiscal years 2014 and 2013, the income taxes were calculated using the exempt method, which resulted in no tax liability.

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2014 AND 2013
(CONTINUED)

NOTE 4 - INCOME TAXES: (CONTINUED)

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the fiscal years ended February 28, 2014 and 2013, the Association did not incur any penalties and interest related to income taxes. The Association's federal and state tax returns for the past three years remain subject to examination by the Internal Revenue Service and the State of Maryland.

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of February 28, 2014 the Association maintained funds in the following manner:

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Interest - Bearing Deposits</u>	<u>Total</u>
Pacific Premier	Checking			
	Repurchase Agreement/Sweep	\$ 185,485	\$ -	\$ 185,485
Petty Cash	Imprest Account	300		300
Pacific Premier	Money Market	103,053		103,053
Pacific Premier	Certificate of Deposit		100,000	100,000
Stifel	Certificates of Deposit (3)		202,850	202,850
	Totals	<u>\$ 288,838</u>	<u>\$ 302,850</u>	<u>\$ 591,688</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 \$0 and \$134,397 as of February 28, 2014 and 2013, respectively.

As of February 28, 2014, the Association had \$202,736 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.

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.

	<u>2014</u>	<u>2013</u>
Assessments Receivable	\$ 43,642	\$ 28,776
Less: Allowance for Doubtful Assessments	<u>(30,722)</u>	<u>(17,784)</u>
Assessments Receivable - Net	<u>\$ 12,920</u>	<u>\$ 10,992</u>

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2014 AND 2013
(CONTINUED)

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 2014 and 2013, the Association recognized one-time assessment income of \$52,374 and \$80,124, respectively.

NOTE 8 - 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.

During fiscal years 2014 and 2013, the Association paid CMC \$25,404 and \$23,738, respectively, for website maintenance, casual labor services and general repairs and maintenance. As of February 28, 2014 and 2013, \$645 and \$275, respectively, was owed to CMC for these additional services.

NOTE 9 - UTILITY DEPOSITS:

As of February 28, 2014 and 2013, the Association maintained utility deposits with BGE in the amounts of \$4,050.

NOTE 10 - RECREATION ASSESSMENTS AND CAPITAL CONTRIBUTIONS:

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 and a capital contribution of \$25 for each original home settled in Stonehouse Run Homeowners Association.

NOTE 11 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through September 19, 2014, 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, 2014
(UNAUDITED)

The Association had a replacement reserve study conducted by an engineer employed by Community Management Corporation during 2011 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.

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>2011 Estimated Remaining Useful Life (Years)</u>	<u>2011 Estimated Replacement Cost</u>
<u>Community Center:</u>		
Building Exterior	0-34	\$ 69,860
Building Interior	0-9	35,700
Mechanical	0-14	36,300
Parking Lot	1-14	34,350
<u>Recreation Areas:</u>		
Swimming Pool	0-34	83,580
Tennis Courts	6-29	20,320
Multi-Purpose Courts	6-29	6,080
Tot Lot	0-19	45,800
Pavements and Sidewalks	2-15	141,140
Site Items	0-17	52,170