

Goldklang & Group[®]

CPAs, P.C.

Principals

Howard A. Goldklang, CPA, MBA
Donald E. Harris, CPA
Anne M. Sheehan, CPA
S. Gail Moore, CPA

1801 Robert Fulton Drive, Suite 200
Reston, VA 20191

Managers

Allison A. Day, CPA
Jeremy W. Powell, CPA
Renee L. Watson, CPA

Independent Auditor's Report

Board of Directors

Tanyard Springs Homeowners Association, Inc.
Glen Burnie, Maryland

We have audited the accompanying Balance Sheets of Tanyard Springs Homeowners Association, Inc. as of February 28, 2011 and 2010 and the related Statements of Income, Members' Equity and Cash Flows for the years then ended. These financial statements are the responsibility of the Association. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. 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 the Association, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, 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.

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 10 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.

June 29, 2012

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEETS
FEBRUARY 28, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 368,660	\$ 248,646
Assessments Receivable - Net	5,620	3,597
Accounts Receivable - One -Time Owner Assessments	22,680	18,468
Income Taxes Receivable	200	-
Prepaid Insurance	803	482
Utility Deposit	<u>43</u>	<u>43</u>
 Total Assets	 <u>\$ 398,006</u>	 <u>\$ 271,236</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 55,082	\$ 95,072
Prepaid Assessments	<u>27,621</u>	<u>18,802</u>
Total Liabilities	<u>\$ 82,703</u>	<u>\$ 113,874</u>
 Replacement Reserves	 \$ 107,200	 \$ 58,200
Unappropriated Members' Equity	<u>208,103</u>	<u>99,162</u>
Total Members' Equity	<u>\$ 315,303</u>	<u>\$ 157,362</u>
 Total Liabilities and Members' Equity	 <u>\$ 398,006</u>	 <u>\$ 271,236</u>

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED FEBRUARY 28, 2011 AND 2010

	2011	2010
<u>INCOME:</u>		
General Assessments	\$ 253,314	\$ 112,887
Townhome Assessments	66,132	29,316
Owner One -Time Assessments	197,748	126,540
Interest	1,547	1,300
Other	9,065	3,045
Total Income	\$ 527,806	\$ 273,088
 <u>EXPENSES:</u>		
Management	\$ 28,500	\$ 12,000
Legal, Audit and Tax Preparation	7,958	5,342
Payroll and Related	42,259	-
Consulting / Engineering	12,272	85
Insurance	2,552	1,734
Administrative	42,298	10,654
Electricity	25,891	10,010
Gas	581	-
Ground Maintenance	63,770	40,630
Snow Removal	53,492	132,212
General Repair and Maintenance	13,174	6,294
Pool	38,164	-
Community Center	35,645	-
Bad Debt	3,309	1,393
Total Expenses	\$ 369,865	\$ 220,354
Net Income before Contribution to Reserves	\$ 157,941	\$ 52,734
Contribution to Reserves	(49,000)	(39,000)
Net Income	\$ 108,941	\$ 13,734

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED FEBRUARY 28, 2011 AND 2010

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of February 28, 2009	\$ 19,200	\$ 85,428	\$ 104,628
Additions:			
Contribution to Reserves	39,000		39,000
Net Income		13,734	13,734
Balance as of February 28, 2010	\$ 58,200	\$ 99,162	\$ 157,362
Additions:			
Contribution to Reserves	49,000		49,000
Net Income		108,941	108,941
Balance as of February 28, 2011	<u>\$ 107,200</u>	<u>\$ 208,103</u>	<u>\$ 315,303</u>

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 28, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 108,941	\$ 13,734
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Allowance for Doubtful Assessments	3,309	1,393
Decrease (Increase) in:		
Assessments Receivable	(5,332)	(3,334)
Accounts Receivable - One-Time Owner Assessments	(4,212)	(13,680)
Income Taxes Receivable	(200)	-
Prepaid Insurance	(321)	(202)
Increase (Decrease) in:		
Accounts Payable	(39,990)	91,740
Prepaid Assessments	8,819	2,369
Net Cash Flows from Operating Activities	<u>\$ 71,014</u>	<u>\$ 92,020</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	<u>\$ 49,000</u>	<u>\$ 39,000</u>
Net Change in Cash and Cash Equivalents	\$ 120,014	\$ 131,020
Cash and Cash Equivalents at Beginning of Year	<u>248,646</u>	<u>117,626</u>
Cash and Cash Equivalents at End of Year	<u>\$ 368,660</u>	<u>\$ 248,646</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 200</u>	<u>\$ -</u>

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2011 AND 2010

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 613 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.

F) Reclassification - Certain amounts have been reclassified in the accompanying 2010 financial statements to conform to the 2011 presentation.

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2011 AND 2010
(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 Community Management Corporation as part of the public offering statement during 2007. Community Management Corporation conducted an updated study in 2010. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on the 2010 study.

The 2007 study recommends an annual contribution to reserves of \$95,500 for fiscal year 2011. For fiscal year 2011, the Association budgeted to contribute \$49,000 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, 2011 and 2010, the Association had designated \$107,200 and \$58,200, respectively, for replacement reserves. These designated replacement reserves were funded by cash and cash equivalents.

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 2011 and 2010, the income taxes were calculated using the exempt method, which resulted in no tax liability.

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the fiscal years ended February 28, 2011 and 2010, the Association did not incur any penalties and interest related to income taxes.

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2011 AND 2010
(CONTINUED)

NOTE 4 - INCOME TAXES: (CONTINUED)

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 CASH EQUIVALENTS:

As of February 28, 2011 the Association maintained its funds in a checking account of \$267,032 and a money market account of \$101,628 with First Associations Bank.

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>2011</u>	<u>2010</u>
Assessments Receivable	\$ 10,322	\$ 4,990
Less: Allowance for Doubtful Assessments	<u>(4,702)</u>	<u>(1,393)</u>
Assessments Receivable - Net	<u>\$ 5,620</u>	<u>\$ 3,597</u>

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 2011 and 2010, the Association recognized one-time assessments income of \$197,748 and \$126,540, respectively.

NOTE 8 - RELATED PARTY TRANSACTIONS:

The Association is managed by Community Management Corporation (CMC). During fiscal years 2011 and 2010, the Association paid CMC \$2,741 and \$1,508, respectively, for casual labor services and general and repair maintenance. The Association also paid CMC \$3,885 for conducting a replacement reserve study in fiscal year 2011. As of February 28, 2011 and 2010, \$0 and \$201, respectively, were owed to CMC for these additional services.

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2011 AND 2010
(CONTINUED)

NOTE 8 - RELATED PARTY TRANSACTIONS: (CONTINUED)

CMC is owned by Associa. Officers of Associa are stockholders in First Associations Bank. In addition, the President/Chief Executive Officer of Associa serves on the bank's board of directors. The Association maintains funds at First Associations Bank.

Associa also owns Associations Insurance Agency, Inc. Associations Insurance Agency, Inc. has acted as an insurance broker on behalf of several communities to obtain individual insurance policies for each participating community. During fiscal year 2011, the Association participated in this insurance program. The Association paid Associations Insurance Agency, Inc. \$2,284 and \$1,936 in insurance costs during fiscal years 2011 and 2010, respectively. No amounts were owed to Associations Insurance Agency, Inc. for insurance costs as of February 28, 2011 and 2010.

NOTE 9 - UTILITY DEPOSIT:

As of February 28, 2011 and 2010, the Association maintained a utility deposit with BGE in the amount of \$43.

NOTE 10 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through June 29, 2012, 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, 2011 AND 2010
(UNAUDITED)

The Association had a replacement reserve study conducted by Community Management Corporation during 2010 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. Estimated replacement costs 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>2010 Estimated Remaining Useful Life (Years)</u>	<u>2010 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	414,140
Site Items	0-17	52,170