

# Goldklang & Group

CPAs, P.C.

## Principals

Howard A. Goldklang, CPA, MBA  
Donald E. Harris, CPA  
Anne M. Sheehan, CPA  
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1801 Robert Fulton Drive, Suite 200  
Reston, VA 20191

## Managers

Jamie L. Brodnax, CPA  
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 Sheet of Tanyard Springs Homeowners Association, Inc. as of February 28, 2010 and the related Statements of Income, Members' Equity and Cash Flows for the year 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 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 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 audit provides 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, 2010, 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.

The supplementary information on future major repairs and replacements on page 10 is not a required part of the basic financial statements of Tanyard Springs Homeowners Association, Inc., but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Goldklang Group CPAs, P.C.*

July 1, 2010

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET  
FEBRUARY 28, 2010

ASSETS

Cash and Cash Equivalents	\$	248,646
Assessments Receivable - Net		3,597
Accounts Receivable - One-Time Owner Assessments		18,468
Prepaid Insurance		482
Utility Deposit		<u>43</u>
Total Assets	\$	<u><u>271,236</u></u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$	95,072
Prepaid Assessments		<u>18,802</u>
Total Liabilities	\$	<u>113,874</u>
Replacement Reserves	\$	58,200
Unappropriated Members' Equity		<u>99,162</u>
Total Members' Equity	\$	<u>157,362</u>
Total Liabilities and Members' Equity	\$	<u><u>271,236</u></u>

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.  
STATEMENT OF INCOME  
FOR THE YEAR ENDED FEBRUARY 28, 2010

INCOME:

General Assessments	\$	112,887
Townhome Assessments		29,316
Owner One-Time Assessments		126,540
Interest		1,300
Other		3,045
Total Income	\$	<u>273,088</u>

EXPENSES:

Management	\$	12,000
Legal, Audit and Tax Preparation		5,342
Insurance		1,734
Administrative		10,739
Electricity		10,010
Ground Maintenance		40,630
Snow Removal		132,212
General Repair and Maintenance		6,294
Bad Debt		1,393
Total Expenses	\$	<u>220,354</u>
Net Income before Contribution to Reserves	\$	52,734
Contribution to Reserves		<u>(39,000)</u>
Net Income	\$	<u>13,734</u>

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.  
STATEMENT OF MEMBERS' EQUITY  
FOR THE YEAR ENDED FEBRUARY 28, 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	<u>\$ 58,200</u>	<u>\$ 99,162</u>	<u>\$ 157,362</u>

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED FEBRUARY 28, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income	\$	13,734
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Decrease (Increase) in:		
Assessments Receivable - Net		(1,941)
Accounts Receivable - One-Time Owner Assessments		(13,680)
Prepaid Insurance		(202)
Utility Deposits		-
Increase (Decrease) in:		
Accounts Payable		91,740
Prepaid Assessments		2,369
Net Cash Flows from Operating Activities	\$	<u>92,020</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Received from Assessments (Reserves)	\$	39,000
Net Cash Flows from Investing Activities	\$	<u>39,000</u>
Net Change in Cash and Cash Equivalents	\$	131,020
Cash and Cash Equivalents at Beginning of Year		<u>117,626</u>
Cash and Cash Equivalents at End of Year	\$	<u><u>248,646</u></u>

See Accompanying Notes to Financial Statements

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

NOTE 1 - NATURE OF OPERATIONS:

The Association is organized as a master association under the laws of the State of Maryland for the purposes of maintaining and preserving the common property of its members. The Association consists of two member associations and is located in Glen Burnie, Maryland. The Association's Board of Directors administers the Association 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 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, 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. 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 \$95,500. For fiscal year 2010, the Association budgeted to contribute \$39,000 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, 2010, the Association had designated \$58,200 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 2010, the income taxes were calculated using the exempt method, which resulted in no tax liability.

Effective March 1, 2009, the Association implemented Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 740-10, formerly FIN 48, Accounting for Uncertainty in Income Taxes. The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the fiscal

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

NOTE 4 - INCOME TAXES: (CONTINUED)

year ended February 28, 2010, 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 CASH EQUIVALENTS:

As of February 28, 2010, the Association maintained its funds in a checking account of \$148,081 and a money market account of \$100,565 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.

Assessments Receivable	\$ 4,990
Less: Allowance for Doubtful Assessments	<u>(1,393)</u>
Assessments Receivable - Net	<u>\$ 3,597</u>

NOTE 7 - OWNER ONE-TIME ASSESSMENTS:

At settlement, the Association collects from each original purchaser a one-time assessment of \$684 to provide working capital in the early stages of the community's operations. For fiscal year 2010, the Association recognized one-time assessments income of \$126,540.

NOTE 8 - RELATED PARTY TRANSACTIONS:

The Association is managed by Community Management Corporation (CMC). During fiscal year 2010, the Association paid CMC \$1,508 for casual labor services. As of February 28, 2010, \$201 was owed to CMC for these additional services.

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 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 2010, the Association participated in this insurance program. The Association paid Associations Insurance Agency, Inc. \$1,936 in insurance costs during fiscal year 2010. No amounts were owed to Associations Insurance Agency, Inc. for insurance costs as of February 28, 2010.

NOTE 9 - UTILITY DEPOSIT:

As of February 28, 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 July 1, 2010, 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, 2010  
(UNAUDITED)

The Association had a replacement reserve study conducted by Community Management Corporation during 2007 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>2007 Estimated Remaining Useful Life (Years)</u>	<u>2007 Estimated Replacement Cost</u>
<u>Community Center:</u>		
Building Exterior	3-35	\$ 47,000
Building Interior	1-10	106,500
Mechanical Equipment	1-15	51,500
Pavement and Sidewalks	1-15	54,200
Town Home Pavements and Sidewalks	5-17	431,210
Condominium Pavements and Sidewalks	5-17	113,600
<u>Recreation Areas:</u>		
Swimming Pool	1-35	45,750
Tennis Courts	7-30	19,520
Tot Lot	2-20	15,200
Parking Lot Pavement	5-17	24,920
Site Items	1-15	46,500

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## Managers

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### ***Management Letter***

*This communication is intended solely for the information and use of management and the board of directors and is not intended to be and should not be used by anyone other than these specified parties.*

June 28, 2010

Board of Directors  
Tanyard Springs Homeowners Association, Inc.  
Glen Burnie, Maryland

Dear Board Members:

In connection with our examination of the financial statements of Tanyard Springs Homeowners Association, Inc. for the year ended February 28, 2010, we make the following comments and recommendations.

#### Financial Analysis

As of February 28, 2010, the Association had a surplus of \$99,162 in excess operating funds (unappropriated members' equity). This represents approximately 88% of annual assessments. We recommend the Association maintain excess operating funds at a level of 10% to 20% of annual assessments. Any funds in excess of 20% may be transferred to replacement reserves.

The Association's assessments receivable balance of \$4,990 (before deducting the allowance for doubtful assessments of \$1,393) represents approximately 4% of annual assessments. Assessments receivable, at a level of 3% or less of annual assessments, indicates good collection procedures and has a positive impact on cash flow. We recommend the Association continue to aggressively pursue all delinquent accounts.

The designated replacement reserves of \$58,200 were funded by cash and cash equivalents as of February 28, 2010.

#### Contribution to Reserves

According to the reserve study's recommendations, the Association's contribution does not appear to be sufficient. The study recommends a contribution of \$95,500. The Association budgeted to contribute \$39,000 and \$24,000 to reserves for fiscal years 2010 and 2011, respectively. The Association needs to accumulate sufficient funds for replacement reserves or, when repairs or replacements are necessary, the funds will not be available. We recommend the Association consider whether an additional contribution is necessary.

### Initial Working Capital

During fiscal year 2010, all of the initial working capital received was credited to an income account called "owner one-time assessments." The Association budgeted for the initial working capital to be included in operating income as part of its annual budget. We recommend the Association review its legal documents and consult with its attorney regarding this matter. Generally, initial working capital is maintained in a fund, similar to replacement reserves. The funds are usually available for start-up costs of the association and are not used to reduce assessments in an association's initial years or to offset operating costs.

### Board of Directors Minutes

It is our understanding, based on discussions with management that the Association does not meet on a regular basis. It is important for the Association to meet on a regular basis and record formal minutes for the Association's records. Minutes of board meetings are important records of the decisions concerning areas of the Association's business and financial affairs. Whenever a meeting is held, minutes should be recorded. We recommend the Association begin to record meetings and include the following information within the minutes:

- 1) Approval of final operating budget (gross assessments and reserve contribution)
- 2) Approval of monthly contractual services (vendors and amounts)
- 3) Approval of major nonreserve expenditures (vendors and amounts)
- 4) Approval of expenditures out of reserves (vendors and amounts)
- 5) Transfer of funds from one bank to another (dates and amounts)
- 6) Write-off of any assessments receivable (units and amounts)

These and other business and financial decisions should be included in the minutes in order to have documentation of board actions and provide guidance to management.

### Crime Coverage

We recommend the Association meet with its insurance agent at least annually to discuss coverage and to make sure that the coverage provides the necessary and appropriate protection. In addition, the Association must get a clear understanding of the process necessary for prompt payment should an event occur and a claim becomes necessary. The Association should maintain crime coverage that equals or exceeds the total of its funds. It should be structured to include a defalcation or misappropriation committed by a Board member, an employee of the Association, or employees of the management company, including principals.

### Federal Deposit Insurance Corporation (FDIC)

Effective October 3, 2008 through December 31, 2013, the FDIC insures bank accounts for up to \$250,000 per financial institution. At times throughout the year, the Association's account balances may exceed this limit. We recommend the Association monitor its accounts and immediately transfer funds in excess of the FDIC limit to other institutions or Treasury instruments so all Association funds will be insured. The Association should also periodically check the ratings for all financial institutions used by the Association.

Income Taxes

For fiscal year 2010, we recommend the Association file using the exempt method, which results in no income tax liabilities.

We shall be pleased to discuss our comments and recommendations in greater detail and we are always available to give advice on any financial matter. Please do not hesitate to contact us if there are any questions regarding proper accounting procedures or the implementation of our suggested changes.

Very truly yours,

*Goldklang Group CPAs, P.C.*

GOLDKLANG GROUP CPAs, P.C.

# Goldklang Group

CPAs, P.C.

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### ***Communication with Those Charged with Governance under SAS No. 114***

*This communication is intended solely for the information and use of management and the board of directors and is not intended to be and should not be used by anyone other than these specified parties.*

June 28, 2010

Board of Directors  
Tanyard Springs Homeowners Association, Inc.  
Glen Burnie, Maryland

Dear Board Members:

We have audited the financial statements of Tanyard Springs Homeowners Association, Inc. as of February 28, 2010 and for the year then ended and have issued our report thereon. Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

#### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and through discussions with management or the board of directors.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

The Association is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Association are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no

transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by the Association and are based on the Association's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant accounting estimates affecting the financial statements for the year under audit.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no significant disclosures to the financial statements for the year under audit.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with the Association or management in performing and completing our audit.

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The adjusting journal entries have been provided to the Association. The journal entries are material, either individually or in the aggregate, to the financial statements taken as a whole.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Management and Board of Directors Representations

We have requested certain representations from management and the board of directors that are included in the representation letter.

#### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with the board of directors and management each year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Very truly yours,

*Goldklang Group CPAs, P.C.*

GOLDKLANG GROUP CPAs, P.C.



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***Communication of Significant Deficiencies and/or Material Weaknesses under SAS No. 115***

*This communication is intended solely for the information and use of management and the board of directors and is not intended to be and should not be used by anyone other than these specified parties.*

June 28, 2010

Board of Directors  
Tanyard Springs Homeowners Association, Inc.  
Glen Burnie, Maryland

Dear Board Members:

In planning and performing our audit of the financial statements of Tanyard Springs Homeowners Association, Inc. as of February 28, 2010 and for the year then ended, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore can be no assurance that all such deficiencies have been identified. However, as discussed below, we noted certain deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in internal control to be material weaknesses:

Owner One-Time Assessment Receivable

We proposed an adjustment of \$18,468 to record a receivable for one-time owner assessments as of February 28, 2010. This adjustment is a material correction to the Association's financial statements.

Accrued Expenses

During a search for unrecorded liabilities as of February 28, 2010, we discovered additional invoices totaling \$49,127, which should have been recorded in accrued expenses. This adjustment corrects a material misstatement in the Association's financial statements.

Very truly yours,

*Goldklang Group CPAs, P.C.*

GOLDKLANG GROUP CPAs, P.C.

**Representation Letter**

*This letter needs to be signed by the Board President or Treasurer and management representative, if applicable, and returned to our office within 60 days.*

**Tanyard Springs Homeowners Association, Inc.**

Date 7-1-10

GOLDKLANG GROUP CPAs, P.C.  
1801 Robert Fulton Drive, Suite 200  
Reston, Virginia 20191

4289

Dear Auditors:

We are providing this letter in connection with your audit of the financial statements of **Tanyard Springs Homeowners Association, Inc.** as of **February 28, 2010**, and for the year then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, and results of operations and cash flows, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have made available to you all -
  - A) Financial records and related data.
  - B) Minutes of meetings of the Board of Directors were not provided because no meetings were held.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in accounting records underlying the financial statements.
5. We are in agreement with the adjusting journal entries you have recommended, and they have been posted to the Association's accounts, if appropriate.

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the Association involving:
  - A) management,
  - B) employees who have significant roles in internal control, or
  - C) others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Association received in communications from employees, former employees, owners, regulators, or others.
9. The Association has no undisclosed plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
10. The following have been properly recorded or disclosed in the financial statements -
  - A) Related party transactions and related accounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangement, and guarantees.
  - B) Guarantees, whether written or oral, under which the Association is contingently liable.
11. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that near term means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the Association vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements. We understand that concentrations include individual or group concentrations of sources of labor, services, suppliers or lenders. We further understand that severe impact means a significantly financially disruptive effect on the normal functioning of the Association.
12. Except for legal issues disclosed to you, there are no other -
  - A) Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - B) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
  - C) Pending or threatened litigation, claims or unasserted claims that are required to be accrued or disclosed in the financial statements in accordance with Statement of Financial Accounting Standards No. 5, and we have not consulted a lawyer concerning litigation or claims.
13. The Association has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged, except as made known to you and disclosed in the notes to the financial statements.
14. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
15. We are responsible for the fair presentation of the supplemental information accompanying the financial statements about future major repairs and replacements. The Association had a study conducted in 2007. 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.

16. We understand that the Association is responsible for the choice of income tax filing method and the consequences thereof. The Association's allocation of expenses against exempt and nonexempt function income conforms to IRS rules, which require that the allocation be made "on a reasonable basis."
17. We have reviewed the transactions affecting replacement reserves (including inter-equity transfers). We are in agreement with them and they are properly authorized and approved.
18. Based on the advice of an insurance professional, insurance coverage is considered adequate for any anticipated property damage losses or liability claims.
19. Assessments receivable recorded in the financial statements represent valid claims against debtors for assessments or other charges arising on or before the balance sheet date and have been reduced to their estimated realizable value.
20. If we intend to print a portion of your report (not in its entirety), we will notify you in advance, and you will have the opportunity to review such printed material before its issuance.
21. We have disclosed to you all material events, if any, that would require adjustments to, or disclosure in, the financial statements. In addition, we represent that no other material events have occurred since you completed your audit fieldwork on June 18, 2010 and through the date of this letter. Examples of material events include, but are not limited to, contracts for replacement reserve expenditures, losses due to a fire, changes in ongoing litigation or new litigation and approval of special assessments. Material events that have occurred are:

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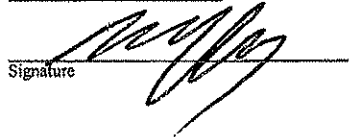
**Tanyard Springs Homeowners Association, Inc.**  
**February 28, 2010**

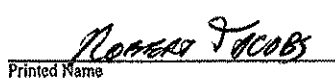
Management Representative:

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name

President/Treasurer:

  
Signature

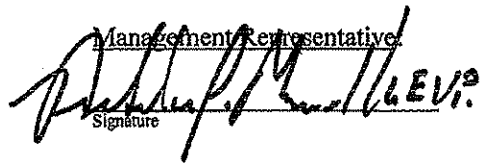
  
Printed Name

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\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Tanyard Springs Homeowners Association, Inc.  
February 28, 2010

Management Representative  
  
Signature

Nicholas J. Magzare  
Printed Name

President/Treasurer:

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name