

Goldklang Group

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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, 2009 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.

The financial statements for the year ended February 29, 2008, have not been audited and, accordingly, we do not express an opinion on the beginning balances.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of Tanyard Springs Homeowners Association, Inc. as of February 28, 2009, 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 9 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.

February 19, 2010

Goldklang Group CPAs, P.C.

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET

FEBRUARY 28, 2009

ASSETS

| | | |
|--|----|----------------|
| Cash and Cash Equivalents | \$ | 117,626 |
| Assessments Receivable | | 1,656 |
| Accounts Receivable - One-Time Owner Assessments | | 4,788 |
| Prepaid Insurance | | 280 |
| Utility Deposits | | <u>43</u> |
| Total Assets | \$ | <u>124,393</u> |

LIABILITIES AND MEMBERS' EQUITY

| | | |
|--|----|----------------|
| Accounts Payable | \$ | 3,332 |
| Prepaid Assessments | | <u>16,433</u> |
| Total Liabilities | \$ | <u>19,765</u> |
| Replacement Reserves | \$ | 19,200 |
| Unappropriated Members' Equity | | <u>85,428</u> |
| Total Members' Equity | \$ | <u>104,628</u> |
| Total Liabilities and Members' Equity | \$ | <u>124,393</u> |

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF INCOME
FOR THE YEAR ENDED FEBRUARY 28, 2009

INCOME:

| | | |
|----------------------------|----|----------------|
| Assessments | \$ | 31,614 |
| Owner One-Time Assessments | | 89,604 |
| Townhome Assessments | | 7,740 |
| Interest | | 156 |
| Other | | 650 |
| Total Income | \$ | <u>129,764</u> |

EXPENSES:

| | | |
|---|----|-----------------|
| Management | \$ | 11,000 |
| Insurance | | 1,947 |
| Administrative | | 4,550 |
| Electricity | | 938 |
| Snow | | 7,643 |
| Water | | 1,794 |
| Total Expenses | \$ | <u>27,872</u> |
| Net Income before Contribution to Reserves | \$ | 101,892 |
| Contribution to Reserves | | <u>(19,200)</u> |
| Net Income | \$ | <u>82,692</u> |

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF MEMBERS' EQUITY
FOR THE YEAR ENDED FEBRUARY 28, 2009

| | <u>Replacement Reserves</u> | <u>Unappropriated Members' Equity</u> | <u>Total Members' Equity</u> |
|---|---------------------------------|---|--------------------------------------|
| Balance as of February 29, 2008 (Unaudited) | \$ - | \$ 2,736 | \$ 2,736 |
| Additions: | | | |
| Contribution to Reserves | 19,200 | | 19,200 |
| Net Income | | 82,692 | 82,692 |
| Balance as of February 28, 2009 | <u>\$ 19,200</u> | <u>\$ 85,428</u> | <u>\$ 104,628</u> |

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED FEBRUARY 28, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

| | | |
|--|----|---------------|
| Net Income | \$ | 82,692 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Decrease (Increase) in: | | |
| Assessments Receivable | | (1,656) |
| Accounts Receivable - One-Time Owner Assessments | | (2,052) |
| Prepaid Insurance | | (280) |
| Utility Deposits | | (43) |
| Increase (Decrease) in: | | |
| Accounts Payable | | 3,332 |
| Prepaid Assessments | | 16,433 |
| Net Cash Flows From Operating Activities | \$ | <u>98,426</u> |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | | |
|--|----|-----------------------|
| Received from Assessments (Reserves) | \$ | <u>19,200</u> |
| Net Cash Flows From Investing Activities | \$ | <u>19,200</u> |
| Net Change in Cash and Cash Equivalents | \$ | 117,626 |
| Cash and Cash Equivalents at Beginning of Year (Unaudited) | | <u>-</u> |
| Cash and Cash Equivalents at End of Year | \$ | <u><u>117,626</u></u> |

See Accompanying Notes to Financial Statements

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2009

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, 2009
(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 2009, the Association budgeted to contribute \$19,200 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, 2009, the Association had designated \$19,200 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 2009, 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, 2009
(CONTINUED)

NOTE 5 - CASH AND CASH EQUIVALENTS:

As of February 28, 2009, the Association maintained its funds in a checking account at Mutual of Omaha in the amount of \$1,243 and also maintained funds at First Associations Bank in the amount of \$116,383.

NOTE 6 - OWNER ONE-TIME ASSESSMENTS:

At settlement, the Association collected from each original purchaser a one-time assessment of \$684 to provide working capital in the early stages of the community's operations. For 2009, the Association recognized one-time assessments income of \$89,604.

NOTE 7 - RELATED PARY TRANSACTIONS:

The Association is managed by Community Management Corporation (CMC). 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 2009, the Association participated in this insurance program. The Association paid Associations Insurance Agency, Inc. \$2,227 in insurance costs during 2009.

NOTE 8 - SUBSEQUENT EVENT:

Subsequent to year-end, the Association incurred snow removal costs of \$32,224 for the townhouse limited common expenses. For fiscal year 2010, the Association budgeted \$8,800 for snow removal.

TANYARD SPRINGS HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
FEBRUARY 28, 2009
(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 |
| Condo 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 |