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Independent Auditor's Report

To the Board of Directors of
The New Mark Commons Homes Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The New Mark Commons Homes Association, Inc., which comprise the balance sheet as of December 31, 2018, and the related statements of income, members' equity and cash flows for the year 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 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 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The New Mark Commons Homes Association, Inc. as of December 31, 2018, 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.

Other Matter on Predecessor Auditors

The financial statements of The New Mark Commons Homes Association, Inc. as of December 31, 2017, were audited by other auditors whose report, dated February 4, 2019, expressed an unmodified opinion on those statements.

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, which 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
November 11, 2019

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2018

ASSETS

Cash and Cash Equivalents	\$ 580,411
Assessments Receivable	8,514
Accounts Receivable - Other	1,260
Prepaid Expenses	20,038
Property and Equipment - Net	<u>4,267</u>
 Total Assets	 <u>\$ 614,490</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 724,264
Bank Overdraft	2,340
Income Taxes Payable	801
Prepaid Assessments	13,174
Note Payable - Net	<u>16,332</u>
Total Liabilities	<u>\$ 756,911</u>
 Contingency Reserve	 \$ 12,125
Replacement Reserves (Deficit)	(344,664)
Unappropriated Members' Equity	<u>190,118</u>
Total Members' Equity (Deficit)	<u>\$ (142,421)</u>
 Total Liabilities and Members' Equity	 <u>\$ 614,490</u>

See Accompanying Notes to Financial Statements

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

INCOME:

Assessments	\$ 529,245
Parking	1,107
Interest	7,092
Pool and Clubhouse	26,645
Other	<u>2,963</u>
Total Income	<u>\$ 567,052</u>

EXPENSES:

Management	\$ 70,523
Legal, Audit and Tax Preparation	23,130
Insurance	51,274
Administrative	19,499
Electricity	12,739
Water and Sewer	9,398
Gas	1,514
Trash Removal	4,340
Grounds	115,075
Common Area Maintenance	39,346
Cleaning	2,513
Pool	76,120
Personnel	5,986
Snow Removal	31,626
Depreciation	2,750
Income Taxes	<u>801</u>
Total Expenses	<u>\$ 466,634</u>
Net Income before Contribution to Reserves	\$ 100,418
Contribution to Replacement Reserves	<u>(128,700)</u>
Net Income (Loss)	<u><u>\$ (28,282)</u></u>

See Accompanying Notes to Financial Statements

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
STATEMENT OF MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Contingency Reserve (Deficit)</u>	<u>Replacement Reserves (Deficit)</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity (Deficit)</u>
Balance as of December 31, 2017	\$ (1,175)	\$ 133,376	\$ 518,400	\$ 650,601
Addition:				
Contribution to Reserves	13,300	115,400		128,700
Inter-Equity Transfer		300,000	(300,000)	
Deductions:				
Asphalt		(671,092)		(671,092)
Asphalt Oversight		(29,488)		(29,488)
Building Repairs		(216)		(216)
Drainage		(3,916)		(3,916)
Electrical		(9,829)		(9,829)
Engineering		(38,347)		(38,347)
Fence		(7,475)		(7,475)
Plumbing		(7,722)		(7,722)
Pool		(16,371)		(16,371)
Pool House		(105,487)		(105,487)
Signs		(981)		(981)
Wall		(2,516)		(2,516)
Net Loss			(28,282)	(28,282)
Balance as of December 31, 2018	<u>\$ 12,125</u>	<u>\$ (344,664)</u>	<u>\$ 190,118</u>	<u>\$ (142,421)</u>

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income (Loss)	\$ (28,282)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:	
Depreciation	2,750
Decrease (Increase) in:	
Assessments Receivable	(4,232)
Accounts Receivable - Other	(1,260)
Prepaid Expenses	(9,435)
Increase (Decrease) in:	
Accounts Payable	7,167
Bank Overdraft	2,340
Income Taxes Payable	801
Prepaid Assessments	11,838
Net Cash Flows from Operating Activities	<u>\$ (18,313)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Received from Assessments (Reserves)	\$ 128,700
Disbursed for Reserve Expenditures	(200,365)
Net Cash Flows from Investing Activities	<u>\$ (71,665)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Received from Note Payable	\$ 18,000
Disbursed for Loan Fees	(1,668)
Net Cash Flows From Financing Activities	<u>\$ 16,332</u>

Net Change in Cash and Cash Equivalents	\$ (73,646)
Cash and Cash Equivalents at Beginning of Year	<u>654,057</u>
Cash and Cash Equivalents at End of Year	<u>\$ 580,411</u>

See Accompanying Notes to Financial Statements

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - NATURE OF OPERATIONS:

The Association is organized under the laws of the State of Maryland for the purposes of preserving and maintaining the common areas of the Association. The Association is located in Rockville, Maryland and consists of 384 homes. The Board of Directors administers the operations of the Association.

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 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, land, site improvements and recreational facilities.

D) 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.

E) 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.

F) 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 of three months or less to be cash equivalents.

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(CONTINUED)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

G) Debt Issuance Costs - The Association has implemented Accounting Standard Update (ASU) 2015-03 Subtopic 835-30, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented as a direct deduction from the debt liability, rather than as a deferred asset. Debt issuance costs are also recorded to interest expense over the life of the note.

NOTE 3 - REPLACEMENT RESERVES:

The Association's governing documents do not require the Association to fund or establish a replacement reserve program. If funds are needed, the Association may increase regular assessments, pass special assessments, utilize excess operating funds or delay major repairs and replacement until funds are available.

The Association had a replacement reserve study conducted by Mason and Mason in 2017. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

For 2018, the reserve study recommends a contribution of \$75,767 to reserves. Additionally, the reserve study recommends an interest contribution of \$3,963 for 2018. For 2018, the Association budgeted to contribute \$115,400 to reserves. Additionally, the Association elected to transfer \$300,000 from unappropriated members' equity to replacement 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 amounts, 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 Association may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As of December 31, 2018, the Association had a deficit in replacement reserves of \$344,664.

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

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(CONTINUED)

NOTE 4 - INCOME TAXES: (CONTINUED)

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 2018, the income taxes were calculated using the corporate method.

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 CASH EQUIVALENTS:

As of December 31, 2018, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Cash and Cash Equivalents</u>
Bank of America	\$ 9,131
Union Bank and Trust	9,088
Capital One	64,838
Revere	249,244
Congressional	248,110
Total	<u>\$ 580,411</u>

NOTE 6 - PROPERTY AND EQUIPMENT - NET:

Fixed assets purchased by the Association are carried at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. The current year depreciation expense was \$2,750.

Property and Equipment	\$ 39,494
Less: Accumulated Depreciation	<u>(35,227)</u>
Property and Equipment - Net	<u>\$ 4,267</u>

NOTE 7 - CONTINGENCY RESERVE:

The Association established a contingency reserve for unexpected contingencies. During 2018, the Association elected to contribute \$13,300 to this reserve. As of December 31, 2018, the Association had designated \$12,125 for the contingency reserve.

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(CONTINUED)

NOTE 8 - NOTE PAYABLE - NET:

During October 2018, the Association obtained a promissory note from Union Bank & Trust for up to \$750,000. The proceeds are funding replacement reserve projects. The draw period ends on April 29, 2019, the completion date, and converts to a seven year note at that time, with the first installment due on the 29th date of the month following the completion date. The terms of the note are for interest only payments during the draw period and then monthly principal and interest payments of \$10,422. Interest is fixed at 4.49%. The note is secured by all Association assets.

The note payable balance as of December 31, 2018 was:

Principal	\$ 18,000
Less: Unamortized Debt Issuance Costs	<u>(1,668)</u>
Note Payable - Net	<u>\$ 16,332</u>

NOTE 9 - MANAGEMENT SERVICES:

The Association retains Abaris Realty as its management agent. In addition, Abaris provided services to oversee the asphalt project for the Association. During 2018, no amounts were paid by the Association for these additional services. As of December 31, 2018, \$29,844 was owed for these additional services.

NOTE 10 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through November 11, 2019, the date the financial statements were available to be issued.

During 2018, the Association contracted to complete asphalt and concrete replacement of approximately \$717,600. Of this amount, approximately \$60,500 will be completed during 2019. These repairs are being funded by replacement reserves and the note payable. Additionally, subsequent to year-end, the Association incurred approximately \$100,100 for other replacement reserve expenditures.

Also, during 2019, the Association advanced the remainder of the note payable.

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2018
(UNAUDITED)

The Association had a replacement reserve study conducted by Mason and Mason during 2017 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 take into account the effects of inflation between the date of the study and the date the components will require repair or replacement. The study does not present the estimated remaining useful lives in a format that can be summarized. Therefore, the estimated remaining useful lives of the common property components are not presented below.

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>2017 Estimated Replacement Cost</u>
Asphalt	\$ 472,292
Concrete	789,793
Site Features	905,689
Community Center Exterior	67,668
Community Center Interior	37,017
Mechanical, Electrical, and Plumbing	64,972
Pool Facility	431,932