



Principals

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Manager

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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 sheets as of December 31, 2019 and 2018, 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 The New Mark Commons Homes Association, Inc. as of December 31, 2019 and 2018, 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 14 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
July 15, 2020

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

	2019	2018
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 703,407	\$ 580,411
Assessments Receivable - Net	2,767	8,514
Income Taxes Receivable	1,800	-
Accounts Receivable - Other	1,260	1,260
Deferred Taxes	8,083	-
Prepaid Expenses	13,708	20,038
Property and Equipment - Net	2,667	4,267
Total Assets	\$ 733,692	\$ 614,490

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 15,980	\$ 724,264
Bank Overdraft	-	2,340
Income Taxes Payable	1,053	801
Prepaid Assessments	12,532	13,174
Note Payable - Net	687,256	16,332
Total Liabilities	\$ 716,821	\$ 756,911
Contingency Reserve	\$ 26,899	\$ 12,125
Replacement Reserves (Deficit)	(269,619)	(344,664)
Unappropriated Members' Equity	259,591	190,118
Total Members' Equity (Deficit)	\$ 16,871	\$ (142,421)
Total Liabilities and Members' Equity	\$ 733,692	\$ 614,490

See Accompanying Notes to Financial Statements

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>INCOME:</u>		
Assessments	\$ 793,475	\$ 529,245
Parking	1,661	1,107
Interest	11,275	7,092
Deferred Tax Benefit	8,083	-
Pool and Clubhouse	28,890	26,645
Other	<u>8,949</u>	<u>2,963</u>
Total Income	<u>\$ 852,333</u>	<u>\$ 567,052</u>
 <u>EXPENSES:</u>		
Management	\$ 75,238	\$ 70,523
Legal, Audit and Tax Preparation	23,817	23,130
Insurance	57,044	51,274
Administrative	35,366	19,499
Electricity	14,198	12,739
Water and Sewer	5,869	9,398
Gas	1,426	1,514
Trash Removal	3,095	4,340
Grounds	112,554	115,075
Common Area Maintenance	43,997	39,346
Cleaning	-	2,513
Pool	83,471	76,120
Personnel	3,330	5,986
Snow Removal	21,270	31,626
Depreciation	1,600	2,750
Loan Interest	32,673	-
Income Taxes	<u>-</u>	<u>801</u>
Total Expenses	<u>\$ 514,948</u>	<u>\$ 466,634</u>
Net Income before Contribution to Reserves	\$ 337,385	\$ 100,418
Contribution to Replacement Reserves	<u>(267,912)</u>	<u>(128,700)</u>
Net Income (Loss)	<u>\$ 69,473</u>	<u>\$ (28,282)</u>

See Accompanying Notes to Financial Statements

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 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	\$ 12,125	\$ (344,664)	\$ 190,118	\$ (142,421)
Additions:				
Contribution to Reserves	14,774	253,138		267,912
Net Income			69,473	69,473
Deductions:				
Asphalt		(72,252)		(72,252)
Clubhouse		(47,159)		(47,159)
Electrical		(6,722)		(6,722)
Engineering		(13,100)		(13,100)
Painting		(1,310)		(1,310)
Plumbing		(5,675)		(5,675)
Pool		(18,150)		(18,150)
Tennis Courts		(13,725)		(13,725)
Balance as of December 31, 2019	<u>\$ 26,899</u>	<u>\$ (269,619)</u>	<u>\$ 259,591</u>	<u>\$ 16,871</u>

See Accompanying Notes to Financial Statements

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	\$ 69,473	\$ (28,282)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	1,600	2,750
Deferred Tax Benefit	(8,083)	-
Amortization of Loan Fees	288	-
Bad Debt Expense	8,681	-
Decrease (Increase) in:		
Assessments Receivable	(2,934)	(4,232)
Income Taxes Receivable	(1,800)	-
Accounts Receivable - Other	-	(1,260)
Prepaid Expenses	6,330	(9,435)
Increase (Decrease) in:		
Accounts Payable	(10,444)	7,167
Bank Overdraft	(2,340)	2,340
Income Taxes Payable	252	801
Prepaid Assessments	(642)	11,838
Net Cash Flows from Operating Activities	\$ 60,381	\$ (18,313)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 206,548	\$ 128,700
Received from Principal Payment Contribution (Reserves)	61,364	-
Disbursed for Reserve Expenditures	(875,933)	(200,365)
Net Cash Flows from Investing Activities	\$ (608,021)	\$ (71,665)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Received from Note Payable	\$ 732,000	\$ 18,000
Disbursed for Loan Fees	-	(1,668)
Disbursed for Note Principal Payments	(61,364)	-
Net Cash Flows From Financing Activities	\$ 670,636	\$ 16,332
Net Change in Cash and Cash Equivalents	\$ 122,996	\$ (73,646)

See Accompanying Notes to Financial Statements

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(CONTINUED)

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents at Beginning of Year	<u>580,411</u>	<u>654,057</u>
Cash and Cash Equivalents at End of Year	<u>\$ 703,407</u>	<u>\$ 580,411</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash Paid for Interest	<u>\$ 31,720</u>	<u>\$ -</u>
Cash Paid for Income Taxes	<u>\$ 3,419</u>	<u>\$ -</u>

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 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 accordance with accounting principles generally accepted in the United States of America.

B) Member Assessments - Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its assessments is satisfied over time on a daily pro-rata basis using the input method. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from members. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. Prior to the adoption of ASU 2014-09, the Association recognized revenue when earned.

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.

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
(CONTINUED)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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.

G) Debt Issuance Costs - 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 2019, the reserve study recommends a contribution of \$155,919 to reserves. Additionally, the reserve study recommends an interest contribution of \$2,732 for 2019. For 2019, the Association budgeted to contribute \$191,774 to reserves. Additionally, the Association contributed principal payments on the note of \$61,364 during 2019.

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, 2019 and 2018, the Association had a deficit in replacement reserves of \$269,619 and \$344,664, respectively. The Association funded capital projects with a loan, see note 10. These projects were taken from replacement reserves which caused the deficit. The deficit will be replenished as the principal payments are made on the note.

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

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
(CONTINUED)

NOTE 4 - INCOME TAXES: (CONTINUED)

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 2019 and 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, 2019, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Cash and Cash Equivalents</u>
NCB	\$ 24,301
Atlantic Union Bank	198,173
Capital One	65,818
Revere	213,310
Congressional	201,805
Total	<u>\$ 703,407</u>

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>2019</u>	<u>2018</u>
Assessments Receivable	\$ 11,448	\$ 8,514
Less: Allowance for Doubtful Assessments	(8,681)	-
Assessments Receivable - Net	<u>\$ 2,767</u>	<u>\$ 8,514</u>

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
(CONTINUED)

NOTE 7 - FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION:

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate—Common Interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association adopted the new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning unappropriated members' equity balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment income, as previously described.

The adoption of the new revenue recognition guidance resulted in no changes to balances as of January 1, 2019.

NOTE 8 - 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. During 2019 and 2018, operating depreciation was \$1,600 and \$2,750, respectively.

	2019	2018
Property and Equipment	\$ 39,494	\$ 39,494
Less: Accumulated Depreciation	(36,827)	(35,227)
Fixed Assets - Net	\$ 2,667	\$ 4,267

NOTE 9 - CONTINGENCY RESERVE:

The Association established a contingency reserve for unexpected contingencies. During 2019, the Association elected to contribute \$14,774 to this reserve. As of December 31, 2019 and 2018, the Association had designated \$26,899 and \$12,125, respectively, for the contingency reserve.

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
(CONTINUED)

NOTE 10 - NOTE PAYABLE - NET:

During October 2018, the Association obtained a promissory note from Atlantic Union Bank, formerly Union Bank & Trust, for up to \$750,000. The proceeds are funding replacement reserve projects. The draw period ended on April 29, 2019, the completion date, and converted to a seven year note at that time, with the first installment due on May 29, 2019.

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, 2019 and 2018 was:

	2019	2018
Principal	\$ 688,636	\$ 18,000
Less: Unamortized Debt Issuance Costs	(1,380)	(1,668)
Note Payable - Net	\$ 687,256	\$ 16,332

Principal curtailment of the amount borrowed for the next five years is as follows:

2020	\$	96,102
2021		100,506
2022		105,113
2023		109,931
2024		114,970
Thereafter		162,014
Total	\$	688,636

NOTE 11 - MANAGEMENT SERVICES:

The Association retains Abaris Realty as its management agent. In addition, Abaris provided services to oversee the asphalt project for the Association. In 2019 and 2018, the Association paid \$32,206 and \$0, respectively, for these additional services. As of December 31, 2019 and 2018, \$0 and \$29,844, respectively, were due for these additional services.

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
(CONTINUED)

NOTE 12 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 15, 2020, the date the financial statements were available to be issued.

Subsequent to year-end, the Association incurred reserve expenditures of approximately \$31,850.

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2019
(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