



Principals

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Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of The New Mark Commons Homes Association, Inc., which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The New Mark Commons Homes Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The New Mark Commons Homes Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 New Mark Commons Homes Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The New Mark Commons Homes Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 is the responsibility of management and, 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
May 10, 2023

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

	2022	2021
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 1,452,769	\$ 1,301,139
Assessments Receivable - Net	3,746	3,599
Accounts Receivable - Other	1,260	1,587
Deferred Taxes	17,972	15,326
Prepaid Expenses	13,896	12,156
Total Assets	\$ 1,489,643	\$ 1,333,807

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 42,703	\$ 28,883
Prepaid Assessments	13,236	7,820
Note Payable - Net	376,499	490,097
Total Liabilities	\$ 432,438	\$ 526,800
Contingency Reserve	\$ -	\$ 114,120
Replacement Reserves	816,378	517,460
Unappropriated Members' Equity	240,827	175,427
Total Members' Equity	\$ 1,057,205	\$ 807,007
Total Liabilities and Members' Equity	\$ 1,489,643	\$ 1,333,807

See Accompanying Notes to Financial Statements

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>INCOME:</u>		
Assessments	\$ 1,058,953	\$ 1,058,953
Parking	1,107	1,107
Interest	14,282	3,597
Bad Debt Recovery	-	2,100
Deferred Tax Benefit	2,646	7,254
Pool and Clubhouse	39,549	29,688
Other	<u>5,672</u>	<u>9,303</u>
Total Income	<u>\$ 1,122,209</u>	<u>\$ 1,112,002</u>
 <u>EXPENSES:</u>		
Management	\$ 90,000	\$ 85,000
Legal, Audit and Tax Preparation	43,296	42,559
Insurance	47,046	50,169
Administrative	29,497	22,737
Engineering Study	-	1,600
Electricity	15,884	13,827
Water and Sewer	3,938	4,780
Gas	1,558	1,299
Trash Removal	1,250	1,013
Grounds	166,620	125,979
Common Area Maintenance	33,030	23,564
Cleaning	1,472	-
Pool	96,295	88,314
Personnel	2,450	1,986
Snow Removal	23,777	34,616
Assessment Credit	76,800	-
Bad Debt	5,288	-
Depreciation	-	1,067
Loan Interest	<u>20,055</u>	<u>24,797</u>
Total Expenses	<u>\$ 658,256</u>	<u>\$ 523,307</u>
Net Income before Contribution to Reserves	<u>\$ 463,953</u>	<u>\$ 588,695</u>
Contribution to Replacement Reserves	<u>(512,673)</u>	<u>(538,190)</u>
Net Income (Loss)	<u><u>\$ (48,720)</u></u>	<u><u>\$ 50,505</u></u>

See Accompanying Notes to Financial Statements

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Replacement Reserves (Deficit)	Contingency Reserve	Unappropriated Members' Equity	Total Members' Equity
Balance as of December 31, 2020	\$ (11,742)	\$ 76,899	\$ 284,785	\$ 349,942
Additions:				
Contribution to Reserves	500,969	37,221		538,190
Net Income			50,505	50,505
Inter-Equity Transfer	159,863		(159,863)	
Deductions:				
Signage	(707)			(707)
Lighting	(9,450)			(9,450)
Lake Pier and Bridge	(15,351)			(15,351)
Lake Dam	(15,500)			(15,500)
Drainage	(5,000)			(5,000)
Pool	(12,835)			(12,835)
Clubhouse	(10,767)			(10,767)
Engineering	(59,220)			(59,220)
Land Survey	(2,800)			(2,800)
Total Reseve Expenditures	<u>(131,630)</u>			
Balance as of December 31, 2021	\$ 517,460	\$ 114,120	\$ 175,427	\$ 807,007
Addition:				
Contribution to Reserves	512,673			512,673
Inter-Equity Transfer		(114,120)	114,120	
Deductions:				
Engineering	(47,932)			(47,932)
Lake Dam Project Permit	(750)			(750)
Lake Pier and Bridge	(31,003)			(31,003)
Lighting	(4,273)			(4,273)
Plumbing	(5,950)			(5,950)
Retaining Wall	(49,600)			(49,600)
Telecommunication	(597)			(597)
Tennis Courts	(73,650)			(73,650)
Total Reseve Expenditures	<u>(213,755)</u>			
Net Loss			<u>(48,720)</u>	<u>(48,720)</u>
Balance as of December 31, 2022	<u>\$ 816,378</u>	<u>\$ -</u>	<u>\$ 240,827</u>	<u>\$ 1,057,205</u>

See Accompanying Notes to Financial Statements

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	\$ (48,720)	\$ 50,505
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	-	1,067
Deferred Tax Expense (Benefit)	(2,646)	(7,254)
Amortization of Loan Fees	288	306
Bad Debt Expense (Recovery)	5,288	(2,100)
Decrease (Increase) in:		
Assessments Receivable	(5,435)	2,317
Income Taxes Receivable	-	1,400
Accounts Receivable - Other	327	(327)
Prepaid Expenses	(1,740)	690
Increase (Decrease) in:		
Accounts Payable	8,455	(24,839)
Prepaid Assessments	5,416	2,741
Net Cash Flows from Operating Activities	<u>\$ (38,767)</u>	<u>\$ 24,506</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 398,787	\$ 436,008
Received from Principal Payment Contribution (Reserves)	113,886	102,182
Disbursed for Reserve Expenditures	(208,390)	(107,853)
Net Cash Flows from Investing Activities	<u>\$ 304,283</u>	<u>\$ 430,337</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Disbursed for Note Principal Payments	\$ (113,886)	\$ (102,182)
Net Cash Flows From Financing Activities	<u>\$ (113,886)</u>	<u>\$ (102,182)</u>
Net Change in Cash and Cash Equivalents	\$ 151,630	\$ 352,661
Cash and Cash Equivalents at Beginning of Year	<u>1,301,139</u>	<u>948,478</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,452,769</u>	<u>\$ 1,301,139</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Interest	<u>\$ 21,596</u>	<u>\$ 22,877</u>

See Accompanying Notes to Financial Statements

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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 are 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 credit losses. Methods, inputs, and assumptions used to evaluate when assessments are considered uncollectible include consideration of past experience and susceptibility to factors outside the Association's control

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 that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(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 that funds be accumulated for future major repairs and replacements; however, the Association has elected to set aside funds for replacement reserves. Accumulated funds are generally not available for expenditures for normal operations.

The Association had a replacement reserve study conducted by Becht Engineering BT, Inc. in 2021. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

For 2022, the study recommends a contribution of \$211,619 to reserves. Additionally, the study recommends an interest contribution of \$6,934 for 2022. For 2022, the Association budgeted to contribute \$398,787 to reserves. Additionally, the Association contributed principal payments on the note of \$113,886 during 2022.

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, 2022 and 2021, the Association had designated \$816,378 and \$517,460, respectively, for replacement reserves. These designated reserves were funded by cash and cash equivalents. The Association funded capital projects with a loan, as described in Note 9. These projects were reflected as replacement reserve expenditures. The reserves will continue to be replenished as principal payments are made on the note.

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(CONTINUED)

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 2022 and 2021, the income taxes were calculated using the corporate method, which resulted in no income tax liability.

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, 2022, the Association maintained its funds in the following manner:

Institution	Cash and Cash Equivalents
Operations:	
NCB	\$ 1,449
Reserves:	
Atlantic Union Bank	\$ 193,460
Capital One	67,625
Capital Bank	249,000
Capital Bank (ICS)	666,879
Forbright	245,708
Forbright (ICS)	28,648
Total Reserves	\$ 1,451,320
Total	\$ 1,452,769

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(CONTINUED)

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.

	2022	2021
Assessments Receivable	\$ 10,234	\$ 4,798
Less: Allowance for Doubtful Assessments	(6,488)	(1,199)
Assessments Receivable - Net	\$ 3,746	\$ 3,599

NOTE 7 - 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 2021, the operating depreciation was \$1,067. The fixed assets were fully depreciated during 2021.

	2022	2021
Property and Equipment	\$ 39,494	\$ 39,494
Less: Accumulated Depreciation	(39,494)	(39,494)
Fixed Assets - Net	\$ -	\$ -

NOTE 8 - CONTINGENCY RESERVE:

The Association established a contingency reserve for unexpected contingencies. During 2022 and 2021, the Association elected to contribute \$0 and \$37,221, respectively, to this reserve. During 2022, the Association elected to transfer the contingency reserve to unappropriated members' equity. As of December 31, 2022 and 2021, the Association had designated \$0 and \$114,120, respectively for the contingency reserve.

NOTE 9 - 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 funded replacement reserve projects. The draw period ended on April 29, 2019, the completion date, and was converted to a seven year note at that time, with the first installment due on May 29, 2019.

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(CONTINUED)

NOTE 9 - NOTE PAYABLE - NET: (CONTINUED)

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, 2022 and 2021 was:

	<u>2022</u>	<u>2021</u>
Principal	\$ 376,901	\$ 490,787
Less: Unamortized Debt Issuance Costs	<u>(402)</u>	<u>(690)</u>
Note Payable - Net	<u>\$ 376,499</u>	<u>\$ 490,097</u>

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

2023	\$ 110,341
2024	115,448
2025	120,739
2026	<u>30,373</u>
Total	<u>\$ 376,901</u>

NOTE 10 - ASSESSMENT CREDIT:

During 2022, the Association refunded its homeowners a total of \$76,800 for prior year operating surpluses. The refund was issued to homeowners as a reduction to their assessments for 2022.

NOTE 11 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 10, 2023, the date the financial statements were available to be issued.

During 2022, the Association contracted for lake dam repair engineering services of approximately \$238,000. Of this amount approximately \$137,000 remained to be completed as of December 31, 2022. This project is being funded through replacement reserves.

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(CONTINUED)

NOTE 11 - SUBSEQUENT EVENTS: (CONTINUED)

During 2022, the Association also contracted for a retaining wall replacement project of approximately \$74,000. Of this amount, approximately \$25,000 remained to be completed as of December 31, 2022. This project is being funded through replacement reserves.

In addition, subsequent to year-end, the Association incurred other replacement reserve expenditures of approximately \$3,000.

THE NEW MARK COMMONS HOMES ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2022
(UNAUDITED)

The Association had a replacement reserve study conducted by Becht Engineering BT, Inc. during 2021 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 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; however, the Association's replacement reserve study does take inflation into consideration when evaluating future expenditures and recommended contributions to reserves.

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>2021</u> <u>Estimated</u> <u>Remaining</u> <u>Useful Life</u> <u>(Years)</u>	<u>2021</u> <u>Estimated</u> <u>Replacement</u> <u>Cost</u>
Architectural	5-20	\$ 95,765
Electrical	5-20	147,820
Mechanical	5-24	86,034
Site	0-21	1,870,472
Miscellaneous	0-20	872,139