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Independent Auditor's Report

To the Board of Directors of
Waters Landing Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Waters Landing Association, Inc., which comprise the balance sheets as of December 31, 2018 and 2017, 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Waters Landing Association, Inc. as of December 31, 2018 and 2017, 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.

Emphasis of Matter Regarding Assessments Receivable

Waters Landing Association, Inc. raises funds for its operations and major repairs and replacements through assessment of its members. As explained in Note 6, as of December 31, 2018, the Association had an assessments receivable balance of \$537,611 (before deducting the allowance for doubtful assessments of \$442,454). It is uncertain whether the receivables are actually collectible. The inability to collect owner assessments impacts adversely on the Association's viability. In order for the Association to maintain financial stability and to operate effectively, it must raise and be able to collect sufficient funds from its members to meet its operational and replacement reserve needs. Our opinion on the financial statements is not modified with respect to this matter.

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
October 17, 2019

WATERS LANDING ASSOCIATION, INC.

BALANCE SHEETS

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 1,663,223	\$ 1,098,625
Interest-Bearing Deposits	791,084	779,699
Investments	530,000	530,000
Assessments Receivable - Net	95,157	100,145
Accounts Receivable - Other	4,350	1,450
Income Taxes Receivable	69	-
Prepaid Expenses	25,168	24,218
Deposit	3,954	3,954
Total Assets	<u>\$ 3,113,005</u>	<u>\$ 2,538,091</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 40,938	\$ 66,785
Income Taxes Payable	3,111	907
Prepaid Assessments	<u>77,616</u>	<u>79,849</u>
Total Liabilities	<u>\$ 121,665</u>	<u>\$ 147,541</u>
Replacement Reserves	\$ 1,977,144	\$ 1,627,740
Unappropriated Members' Equity	<u>1,014,196</u>	<u>762,810</u>
Total Members' Equity	<u>\$ 2,991,340</u>	<u>\$ 2,390,550</u>
Total Liabilities and Members' Equity	<u>\$ 3,113,005</u>	<u>\$ 2,538,091</u>

See Accompanying Notes to Financial Statements

WATERS LANDING ASSOCIATION, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
<u>INCOME:</u>		
Assessments	\$ 2,106,454	\$ 2,033,555
Interest	41,971	33,873
Community Center	5,075	5,110
Late and Legal Fees	37,512	31,075
Swim Team	24,195	20,858
Other	7,765	4,160
Total Income	\$ 2,222,972	\$ 2,128,631
 <u>EXPENSES:</u>		
Administrative:		
Management	\$ 123,880	\$ 123,120
Legal, Audit and Tax Preparation	60,102	120,393
Insurance	20,953	18,621
Swim Team	21,101	15,331
Postage	5,237	9,145
Printing and Duplication	8,381	14,020
Other Administrative	11,204	11,937
Total Administrative	\$ 250,858	\$ 312,567
 Operating:		
Electricity - Street Lights	\$ 60,406	\$ 60,302
Pool	217,466	228,586
Building	25,002	24,295
Personnel	188,397	160,340
Maintenance	223,548	261,279
Lawn Maintenance	188,960	197,857
Trash Removal	109,396	100,200
Snow Removal	118,938	54,832
Churchill Foundation Fees	143,682	132,137

See Accompanying Notes to Financial Statements

WATERS LANDING ASSOCIATION, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(CONTINUED)

	<u>2018</u>	<u>2017</u>
Montgomery County Fees	7,890	7,890
Bad Debt	39,882	44,356
Property Taxes	35,047	31,234
Income Taxes	<u>12,710</u>	<u>9,844</u>
Total Operating	<u>\$ 1,371,324</u>	<u>\$ 1,313,152</u>
Total Expenses	<u>\$ 1,622,182</u>	<u>\$ 1,625,719</u>
Net Income before Contribution to Reserves	\$ 600,790	\$ 502,912
Contribution to Reserves	<u>(349,404)</u>	<u>(340,368)</u>
Net Income	<u>\$ 251,386</u>	<u>\$ 162,544</u>

See Accompanying Notes to Financial Statements

WATERS LANDING ASSOCIATION, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2016	\$ 1,472,542	\$ 600,266	\$ 2,072,808
Additions:			
Contribution to Reserves	340,368		340,368
Net Income		162,544	162,544
Deductions:			
Asphalt	(33,889)		(33,889)
Concrete Sidewalk, Curb and Gutter	(145,702)		(145,702)
Pool Filters	(3,360)		(3,360)
Pool Repairs	(2,219)		(2,219)
Balance as of December 31, 2017	\$ 1,627,740	\$ 762,810	\$ 2,390,550
Additions:			
Contribution to Reserves	349,404		349,404
Net Income		251,386	251,386
Balance as of December 31, 2018	<u>\$ 1,977,144</u>	<u>\$ 1,014,196</u>	<u>\$ 2,991,340</u>

See Accompanying Notes to Financial Statements

WATERS LANDING ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 251,386	\$ 162,544
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Bad Debt Expense	39,882	44,356
Decrease (Increase) in:		
Assessments Receivable	(34,894)	(62,624)
Accounts Receivable - Other	(2,900)	-
Income Taxes Receivable	(69)	1,511
Prepaid Expenses	(950)	(3,083)
Increase (Decrease) in:		
Accounts Payable	(25,847)	5,515
Income Taxes Payable	2,204	907
Prepaid Assessments	(2,233)	(17,437)
Net Cash Flows From Operating Activities	<u>\$ 226,579</u>	<u>\$ 131,689</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 349,404	\$ 340,368
Disbursed for Reserve Expenditures	-	(169,476)
Received from Interest-Bearing Deposits/Investments	-	67,944
Disbursed for Interest-Bearing Deposits/Investments	(11,385)	(26,797)
Net Cash Flows From Investing Activities	<u>\$ 338,019</u>	<u>\$ 212,039</u>
Net Change in Cash and Cash Equivalents	\$ 564,598	\$ 343,728
Cash and Cash Equivalents at Beginning of Year	<u>1,098,625</u>	<u>754,897</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,663,223</u>	<u>\$ 1,098,625</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 10,574</u>	<u>\$ 10,869</u>

See Accompanying Notes to Financial Statements

WATERS LANDING ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - NATURE OF OPERATIONS:

The Association is organized under the laws of the State of Maryland for the purpose of preserving and maintaining the open spaces and common areas belonging to the Association. The Association consists of 975 townhomes, 604 detached family homes, four apartment complexes and six condominium complexes. 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 members. The Association's policy is to assess late and interest charges and 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 and recreational facilities.

D) Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income 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 of three months or less to be cash equivalents.

WATERS LANDING ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(CONTINUED)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

F) Investments - The Association's marketable securities have been classified and accounted for either as available-for-sale or held-to-maturity. Debt securities are classified as held-to-maturity when the Association has the positive intent and the ability to hold the securities to maturity. Securities not classified as held-to-maturity are classified as available-for-sale. The cost of securities sold is based upon the specific identification method. The Association reviews its marketable securities annually to determine if any security has experienced an other-than-temporary decline in fair value. If a determination is made that the decline is other-than-temporary, the Association writes down the investment to its market value and records the related write-down as an investment loss in its Statement of Income.

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 Miller Dodson Associates, Inc. during 2010. 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 \$262,528. For 2018, the Association elected to contribute \$349,404 to reserves.

Funds are being accumulated in replacement reserves based on estimates of future needs for major repair and replacement of common property. 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 December 31, 2018 and 2017, the Association had designated \$1,977,144 and \$1,627,740, respectively, for replacement reserves. These designated reserves were funded by cash, interest-bearing deposits and investments.

WATERS LANDING ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(CONTINUED)

NOTE 4 - INCOME TAXES:

For income tax purposes, the Association may elect annually to file either as an exempt association or as an association taxable as a corporation. As an exempt 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 2018 and 2017, the income taxes were calculated using the exempt 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 INTEREST-BEARING DEPOSITS:

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

<u>Institution</u>	<u>Cash and Cash Equivalents</u>	<u>Interest- Bearing Deposits</u>
BB&T	\$ 35,000	\$ -
Capital One	390,258	
Bank of America	16,843	
John Marshall	25,520	248,984
Access National Bank	248,477	
Revere	300,262	
Union Bank	244,677	
Columbia	150,000	
United Bank	200,041	
RBC Wealth Management	52,145	
Sona		132,470
Congressional (2)		254,797
Sandy Spring		103,751
Eagle Bank		51,082
Totals	<u>\$ 1,663,223</u>	<u>\$ 791,084</u>

WATERS LANDING ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(CONTINUED)

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS: (CONTINUED)

Balances at banks are insured by the FDIC for up to \$250,000 per financial institution. Amounts in excess of the insured limits were approximately \$433,165 and \$174,846 as of December 31, 2018 and 2017, respectively.

Cash and securities held at a SIPC member brokerage firm are insured by the SIPC for up to \$500,000, which includes \$250,000 limit for cash. The Association maintains funds in a brokerage account which are subject to SIPC limits.

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 uncollectible. Under the allowance method, collection efforts may continue, and recovery of amounts previously written off is recognized as income in the year of collection.

	2018	2017
Assessments Receivable	\$ 537,611	\$ 503,113
Less: Allowance for Doubtful Assessments	(442,454)	(402,968)
Assessments Receivable - Net	\$ 95,157	\$ 100,145

NOTE 7 - INVESTMENTS:

Held-to-maturity debt securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. In accordance with ASC 820-10, the fair value of the debt securities was obtained using Level 1 Inputs. The amortized cost, gross unrealized gains and losses, and fair value of the held-to-maturity debt securities are summarized below:

WATERS LANDING ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(CONTINUED)

NOTE 7 - INVESTMENTS: (CONTINUED)

	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2018</u>				
GNMA Bond	\$ 150,000	\$ -	\$ (208)	\$ 149,792
FHLMC Bond	380,000	42,480		422,480
Total Held to Maturity Debt Securities	\$ 530,000	\$ 42,480	\$ (208)	\$ 572,272
<u>December 31, 2017</u>				
GNMA Bond	\$ 150,000	\$ 2,547	\$ -	\$ 152,547
FHLMC Bond	380,000	37,141		417,141
Total Held to Maturity Debt Securities	\$ 530,000	\$ 39,688	\$ -	\$ 569,688

Contractual maturities of investments in debt securities at December 31, 2018 and 2017 are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

Held-to-Maturity Debt Securities (Amortized Cost)

	Amortized Cost as of 12/31/18	Amortized Cost as of 12/31/17
Due in One Year or Less	\$ -	\$ -
Due in 1-5 Years	-	-
Due in 5-10 Years	-	-
After 10 Years	530,000	530,000
Mortgage-Backed Securities	-	-
Total Investments in Debt Securities	\$ 530,000	\$ 530,000

The Association has a portion of its funds invested in FHLMC which is a government sponsored entity. Debt securities of government sponsored entities are an uninsured obligation of the entities issuing the investment and are not backed by the full faith and credit of the U.S. Government. Therefore, the credit risk as of December 31, 2018 and 2017 was \$380,000.

WATERS LANDING ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(CONTINUED)

NOTE 8 - CHURCHILL FOUNDATION FEES:

The Association is a member of Churchill Village Foundation. The Foundation provides for the operation and maintenance of certain common areas located around the Waters Landing Community. The Foundation assesses its member associations \$3.50 and \$3.35 per unit per month for the maintenance of these common areas during 2018 and 2017, respectively. Fees assessed to Waters Landing Association, Inc. for 2018 and 2017 were \$143,682 and \$132,137, respectively.

NOTE 9 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 17, 2019, the date the financial statements were available to be issued.

Subsequent to the year end, the Association incurred replacement reserve expenditures of approximately \$48,000. In addition, the Association entered into contracts for asphalt path and tennis court repairs in the amounts of approximately \$254,000 and \$139,000, respectively. These contracts will be funded by replacement reserves.

WATERS LANDING ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2018
(UNAUDITED)

The Association had a replacement reserve study conducted by Miller Dodson Associates, Inc. in 2010 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.

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>2010 Estimated Remaining Useful Life (Years)</u>	<u>2010 Estimated Replacement Cost</u>
Asphalt	1-16	\$ 425,483
Wood Bridges	4-20	27,400
Other Site Components	4-10	43,587
Concrete Sidewalk	2-56	28,390
Concrete Curb and Gutter	2-56	39,100
White House Masonry/Flagstone	-	2,919
Concrete Deck Pool A	8-40	104,225
Concrete Deck Pool B	4-36	128,260
Storm Water Drainage System	3-31	14,750
Building Exterior	1-28	137,585
Community Center A	3-22	108,148
Recreation Center A	1-20	546,335
Recreation Center B	1-23	551,169
Country Lake	1-59	399,510
Harbor Place	1-57	256,707
Logans Port	1-58	242,542
Sunridge/Village	1-60	601,043
Waterbury Downs South	1-56	617,737
Waterbury Downs North	1-57	547,703
Waters Edge	1-58	687,575
Lakecrest	1-55	500,908
U.S. Homes	1-59	180,350