

**HANSON OAKS
ASSOCIATION, INC.**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**Year Ended
December 31, 2022**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hanson Oaks Association, Inc.

Qualified Opinion

We have audited the accompanying financial statements of Hanson Oaks Association, Inc., which comprise the balance sheet as of December 31, 2022, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of Hanson Oaks Association, Inc. as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

We could not obtain sufficient appropriate audit evidence for the balance of the investments in certificates of deposit as of December 31, 2022. As a result of changes in the Board of Directors, the bank statements or bank balance confirmations for these accounts were not available for our inspection. We were unable to obtain sufficient appropriate audit evidence for the balance of the investments in the certificates of deposit by other auditing procedures.

We conducted our audit 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 Hanson Oaks Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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 Hanson Oaks 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditors' 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 Hanson Oaks 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 Hanson Oaks 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.

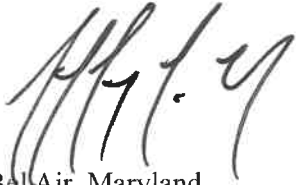
Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information presented on page 12 is for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 pages 10 and 11 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquires, 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.

A handwritten signature in black ink, appearing to read 'M. J. Y.', is written over the printed text of the signature block.

Bel Air, Maryland
December 19, 2023

HANSON OAKS ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2022

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
ASSETS			
Cash-including interest bearing accounts	\$ 15,810	\$ 182,860	\$ 198,670
Investments	-	17,135	17,135
Assessments receivable (less allowance for doubtful accounts of \$4,358)	7,746	-	7,746
Prepaid insurance	<u>1,203</u>	<u>-</u>	<u>1,203</u>
TOTAL ASSETS	<u><u>\$ 24,759</u></u>	<u><u>\$ 199,995</u></u>	<u><u>\$ 224,754</u></u>
 LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 4,176	\$ -	\$ 4,176
Assessments received in advance	<u>3,928</u>	<u>-</u>	<u>3,928</u>
TOTAL LIABILITIES	8,104	-	8,104
 Fund Balances	<u>16,655</u>	<u>199,995</u>	<u>216,650</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 24,759</u></u>	<u><u>\$ 199,995</u></u>	<u><u>\$ 224,754</u></u>

HANSON OAKS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2022

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
REVENUES			
Assessments	\$ 97,500	\$ -	\$ 97,500
Other income	2,589	-	2,589
Interest income	-	650	650
TOTAL REVENUES	<u>100,089</u>	<u>650</u>	<u>100,739</u>
EXPENSES			
Operating	<u>82,167</u>	-	<u>82,167</u>
TOTAL EXPENSES	<u>82,167</u>	<u>-</u>	<u>82,167</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENSES	17,922	650	18,572
BEGINNING FUND BALANCES (DEFICIT)	(35,187)	233,265	198,078
Replacement fund contributions	<u>33,920</u>	<u>(33,920)</u>	<u>-</u>
ENDING FUND BALANCES (DEFICIT)	<u>\$ 16,655</u>	<u>\$ 199,995</u>	<u>\$ 216,650</u>

The accompanying notes are an integral part of these financial statements.

HANSON OAKS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2022

	OPERATING FUND	REPLACEMENT FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficiency) of revenues over (under) expenses	\$ 17,922	\$ 650	\$ 18,572
Adjustments to reconcile excess (deficiency) of revenues over (under) expenses to net cash provided (utilized) by operating activities (Increase) decrease in:			
Assessments receivable (net)	(3,341)	-	(3,341)
Prepaid insurance	1,357	-	1,357
Due from the operating fund	-	34,587	34,587
Increase (decrease) in:			
Accounts payable	1,979	-	1,979
Assessments received in advance	(3,322)	-	(3,322)
Due to the replacement fund	(34,587)	-	(34,587)
NET CASH PROVIDED (UTILIZED) BY OPERATING ACTIVITIES	(19,992)	35,237	15,245
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments - reinvestment of earnings	-	(169)	(169)
NET CASH PROVIDED (UTILIZED) BY INVESTING ACTIVITIES	-	(169)	(169)
NET INCREASE (DECREASE) IN CASH	(19,992)	35,068	15,076
CASH AT BEGINNING OF YEAR	1,882	181,712	183,594
Replacement fund contributions	33,920	(33,920)	-
CASH AT END OF YEAR	\$ 15,810	\$ 182,860	\$ 198,670
Supplemental Disclosures			
Cash paid during the year for:			
Interest	\$ -	\$ -	\$ -
Income taxes	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

HANSON OAKS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022

NATURE OF ORGANIZATION

Hanson Oaks Association, Inc. was organized in the State of Maryland. The Association is responsible for the operation and maintenance of the common property within the development. The development is located in Landover Hills, Maryland and consists of 65 residential units. The property manager for the year ended December 31, 2022 was Metropolis Condominium Management, Inc.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements.

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized when assessments are due. Any amounts received in advance of the due date are deferred until due.

The Financial Accounting Standards Board issued Accounting Standards Code 606 requiring the deferral of the recognition of income until the services are rendered. The Association has determined ASC 606 does not apply to the Association as no relationship exists as it is defined by the Code. The Association does not defer the recognition of any portion of revenue as a contract liability. Any excess assessments at year end are retained by the Association for use in the succeeding year.

Interest Income

Interest income is allocated to the operating and replacement fund in proportion to the interest-bearing deposits of each fund.

HANSON OAKS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of the 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 contingencies 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.

Cash Equivalents

For purposes of reporting cash flow, cash and cash equivalents include money market accounts and any highly liquid debt instruments purchased with a maturity of three months or less.

Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2022, the Association elected to be taxed as homeowners' association. Under that election, the Association is taxed on its nonexempt function income, such as interest income and investment earnings, less expenses specifically allocated to non-exempt income at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable. Income tax expense for year ended December 31, 2022 was \$0.

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the year ended December 31, 2022, the Association incurred no penalties and interest related to income taxes. Management has determined that the Association does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. Tax returns are subject to examination by the Internal Revenue Service and State of Maryland for three years after they are filed.

Recognition of Assets

Real and personal common property acquired by the original owners from the developer is not recognized on the Association's financial statements because it is commonly owned by individual owners and its disposition by the Association is restricted.

Replacements and improvements to common property are not recognized as assets (but are expensed) because their disposition is restricted.

**HANSON OAKS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022**

CASH

The Association's cash at December 31, 2022 consists of the following:

Designated by homeowners for future repairs and replacements:

National Cooperative Bank – money market	\$ 182,860
Sub-Total	182,860

Undesignated:

National Cooperative Bank – checking	15,810
Sub-Total	15,810
Total Cash	\$ 198,670

INVESTMENTS

The Association's investments are certificates of deposit with maturities over three months and are designated by the Association for future major repairs and replacements. The Association's investments at December 31, 2022 consist of the following:

	Maturity Date	Interest Rate	Balance
Harbor Bank	12/26/2027	1.00%	\$ 17,135
Total investments			\$ 17,135

ASSESSMENTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Assessments receivables represent the amounts owed to the Association by various homeowners and as of December 31, 2022, the amount owed is \$12,104. The reserve for doubtful accounts is \$4,358 as of December 31, 2022 and is based on a specific uncollectability rate for each homeowner past due.

ASSESSMENTS RECEIVED IN ADVANCE

At December 31, 2022, assessments received in advance were \$3,928. This amount represents 2023 homeowner assessments paid prior to December 31, 2022.

**HANSON OAKS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022**

FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds for repairs and maintenance, which include \$182,860 of cash equivalents and \$17,135 of investments, aggregating to \$199,995 at December 31, 2022, are held in separate accounts and are generally not available for operating purposes. There were no expenditures for major replacements for the year ended December 31, 2022. Inter-fund transfers from the replacement fund to the operating fund were \$33,920 for the year ended December 31, 2022.

The Association's Board of Directors engaged an independent engineering firm to conduct a study which was finalized in April 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 end of their useful lives.

The following information is based on the study and presents significant information about the components of common property.

<u>Components</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Replacement Cost (Present Dollars)</u>
Asphalt pavement	1 to 25	\$ 258,890
Concrete components	5 to 30	9,100
Fence	10	3,190
Landscape	3	10,000
Light fixtures	9	91,000
Pipes and utilities	1	8,000
Railings	14	3,900
Retaining wall	11	4,440
Signage	7	<u>3,900</u>
Total		<u>\$ 392,420</u>

**HANSON OAKS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022**

FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

Per the independent study, the recommended replacement reserve balance as of December 31, 2022 is \$226,862. The Association's replacement reserve balance as of December 31, 2022 was \$199,995, which is \$26,867 below the recommended levels.

For the year ended December 31, 2022, the reserve study recommended replacement contributions to be \$21,800. For the year ended December 31, 2023, the reserve study recommends replacement contributions of \$17,900.

SUBSEQUENT EVENTS

Subsequent events were evaluated through December 19, 2023, which is the date the financial statements were available to be issued. As of December 19, 2023, no subsequent events were reported.

SUPPLEMENTARY INFORMATION

HANSON OAKS ASSOCIATION, INC.
SCHEDULE OF OPERATING AND REPLACEMENT FUND REVENUES AND EXPENSES-BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2022

	(compiled) Budget	Actual	(compiled) Variance
Revenues:			
Assessments	\$ 97,500	\$ 97,500	\$ -
Other income	-	2,589	2,589
	<u>97,500</u>	<u>100,089</u>	<u>2,589</u>
Total revenues			
Expenses:			
Accounting fees	3,000	3,264	(264)
Bad debt expense	-	3,598	(3,598)
Extermination	8,000	17,133	(9,133)
Gas and electricity	2,250	2,094	156
Grounds and lawn maintenance	20,555	23,224	(2,669)
Insurance	400	1,423	(1,023)
Legal fees and collection fees	3,500	8,509	(5,009)
Management fees	14,215	14,127	88
Office expense	1,540	909	631
Professional fees-other	3,040	-	3,040
Repairs and maintenance	14,000	1,252	12,748
Snow removal	4,000	6,170	(2,170)
Taxes - other	1,000	464	536
	<u>75,500</u>	<u>82,167</u>	<u>(6,667)</u>
Total expenses			
Excess (deficiency) of operating fund revenues over (under) operating fund expenses	22,000	17,922	(4,078)
Replacement fund contributions	<u>22,000</u>	<u>(33,920)</u>	<u>55,920</u>
Excess (deficiency) of operating fund revenues over (under) operating fund expenses after replacement fund contributions	<u>\$ -</u>	<u>\$ 51,842</u>	<u>\$ 51,842</u>
Additional Disclosures:			
Replacement fund activity			
Interest income	<u>\$ -</u>	<u>\$ 650</u>	<u>\$ 650</u>
Capital expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.