

BRAMBLETON COMMUNITY ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

JOHNSON, BREMER & IGNACIO, CPAs, P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Brambleton Community Association

Report on the Financial Statements

We have audited the accompanying financial statements of Brambleton Community Association, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of revenue and expenses, 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 audits 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 Brambleton Community Association as of December 31, 2017 and 2016, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of expenses are presented for purposes of additional analysis and are 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on future repairs and replacements on page 13 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, who 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.

JOHNSON, BREMER & IGNACIO, CPAs, P.C.

December 4, 2018

BRAMBLETON COMMUNITY ASSOCIATION
BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Cash	\$ 729,879	\$ 485,226
Money market	<u>2,222,888</u>	<u>2,199,759</u>
Total cash	2,952,767	2,684,985
Certificates of deposit (note 1)	2,848,911	2,284,860
Assessments receivable, net (note 2)	55,339	134,006
Accounts receivable	5,019	88,533
Prepaid expenses	23,711	23,719
Vehicles	156,272	156,272
Accumulated depreciation	<u>(136,836)</u>	<u>(118,193)</u>
 TOTAL ASSETS	 <u>\$ 5,905,183</u>	 <u>\$ 5,254,182</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<u>LIABILITIES:</u>		
Accounts payable	\$ 760,575	\$ 682,797
Income taxes payable	2,490	-
Payroll payable	55,370	10,070
Prepaid assessments	<u>376,752</u>	<u>487,605</u>
Total liabilities	<u>1,195,187</u>	<u>1,180,472</u>
<u>MEMBERS' EQUITY:</u>		
Reserve funds (notes 3 and 4)	4,364,096	3,842,945
Members' equity	<u>345,900</u>	<u>230,765</u>
Total members' equity	<u>4,709,996</u>	<u>4,073,710</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 <u>\$ 5,905,183</u>	 <u>\$ 5,254,182</u>

See accompanying notes and independent auditor's report

BRAMBLETON COMMUNITY ASSOCIATION
STATEMENTS OF REVENUE AND EXPENSES
FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>REVENUE:</u>		
Assessments	\$ 11,714,094	\$ 10,886,060
Declarant/Builder one-time assessments	125,000	109,000
Capital contributions	93,500	146,000
Less reserve funds assessments	<u>(758,353)</u>	<u>(722,612)</u>
Operating assessments	11,174,241	10,418,448
Interest	59,530	39,041
Activities	274,511	265,110
Late fees	67,830	50,708
Miscellaneous	<u>90,713</u>	<u>86,052</u>
Total operating revenue	<u>11,666,825</u>	<u>10,859,359</u>
<u>EXPENSES:</u>		
Administrative	628,114	632,725
Professional services	1,427,698	1,340,856
Maintenance and services	2,008,710	2,092,778
Limited common expense	5,916,295	5,636,294
Single-family attached expenses	757,999	816,376
Single-family detached expenses	463,251	445,085
Recreation expenses	348,623	350,781
Common driveway expenses	<u>1,000</u>	<u>1,560</u>
Total expenses	<u>11,551,690</u>	<u>11,316,455</u>
Excess (deficiency) of revenue over expenses before transfer from general operating fund	115,135	(457,096)
Transfer from general operating fund	<u>-</u>	<u>265,669</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	<u>\$ 115,135</u>	<u>\$ (191,427)</u>

See accompanying notes and independent auditor's report

BRAMBLETON COMMUNITY ASSOCIATION
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

	<u>Reserve Funds</u>	<u>Members' Equity</u>
Balance at December 31, 2015	\$ 3,735,518	\$ 422,192
Addition:		
Reserve funds assessments	722,612	
Deductions:		
Reserve funds expenditures	(349,516)	
Transfer from general operating fund	(265,669)	
(Deficiency) of revenue over expenses	_____	(191,427)
Balance at December 31, 2016	3,842,945	230,765
Additions:		
Reserve funds assessments	758,353	
Excess of revenue over expenses		115,135
Deduction:		
Reserve funds expenditures	(237,202)	_____
Balance at December 31, 2017	<u>\$ 4,364,096</u>	<u>\$ 345,900</u>

See accompanying notes and independent auditor's report

BRAMBLETON COMMUNITY ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Excess (deficiency) of revenue over expenses	\$ 115,135	\$ (191,427)
Adjustments needed to reconcile excess (deficiency) of revenue over expenses to net cash provided by (used for) operating activities:		
Reserve funds assessments	758,353	722,612
Reserve funds expenditures	(237,202)	(349,516)
Transfer from general operating fund	-	(265,669)
Depreciation	18,643	18,897
(Increase) decrease in assessments receivable, net	78,667	(54,318)
(Increase) decrease in accounts receivable	83,514	(76,556)
Decrease in prepaid expenses	8	12,188
Increase (decrease) in accounts payable	77,778	(19,883)
Increase in income taxes payable	2,490	-
Increase (decrease) in payroll payable	45,300	(10,456)
(Decrease) in prepaid assessments	<u>(110,853)</u>	<u>(44,175)</u>
Net cash provided by (used for) operating activities	<u>831,833</u>	<u>(258,303)</u>
Cash flows from investing activities:		
Redemption of certificates of deposit	467,273	605,818
Purchase of certificates of deposit	<u>(1,031,324)</u>	<u>(1,089,840)</u>
Net cash (used for) investing activities	<u>(564,051)</u>	<u>(484,022)</u>
Net increase (decrease) in cash	267,782	(742,325)
Cash at beginning of year	<u>2,684,985</u>	<u>3,427,310</u>
Cash at end of year	<u>\$ 2,952,767</u>	<u>\$ 2,684,985</u>
Interest expense paid in cash during year	<u>\$ 711</u>	<u>\$ 627</u>
Income taxes paid in cash during year	<u>\$ 14,896</u>	<u>\$ 8,603</u>

See accompanying notes and independent auditor's report

BRAMBLETON COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

ORGANIZATION:

Brambleton Community Association is a non-stock Virginia corporation formed to provide for the maintenance and preservation of the common area of the Association, to promote the health, safety, and welfare of the residents within the Association, to establish and administer the architectural, landscaping and upkeep standards governing the property and to exercise other powers and duties as set forth in the Association documents. Brambleton Community Association is located in Loudoun County, Virginia and is planned to include approximately 8,000 single-family homes and multi-family residential units, though the total number and mix of homes is subject to change. As of December 31, 2017, there are approximately 5,234 settled units.

DATE OF MANAGEMENT REVIEW:

In preparing the financial statements, the Association evaluated events and transactions for potential recognition or disclosure through December 4, 2018, the date the financial statements were available to be issued.

SIGNIFICANT ACCOUNTING POLICIES:

Method of Presentation - The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of the accrual method of accounting whereby revenues are recognized when earned rather than received and expenses are recognized when incurred rather than paid.

Reserve Funds - The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are identified in a separate fund and generally are not available for expenditures for normal operations.

The Association contracted with an engineering firm to conduct a study in 2015 to estimate the remaining useful lives and the replacement costs of the capital components of common property. The estimates were based on future estimated replacement costs. The table included in the unaudited supplementary information on future major repairs and replacements is based on the study. The Board is funding for major repairs and replacements over the remaining useful lives of the capital components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the repair and replacement funds.

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BRAMBLETON COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Continued)

SIGNIFICANT ACCOUNTING POLICIES:

Reserve Funds: (Continued)

Accumulated funds are identified in a separate fund and generally are not available for expenditures for normal operations.

Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the repair and replacement funds may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Board of Directors has the right, subject to the provision of the legal documents, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Initial Capital Assessments - The Association collects from each original non-builder purchaser of a single-family home a one-time working capital contribution in the amount of \$500 or \$375, depending on the type of unit, at the time of settlement, to be used for the initial start-up costs of the Association.

Builder Assessments - The Association collects from each builder a one-time assessment at the time of conveyance of the lot from the Declarant to the builder of \$1000, \$500 or \$375, depending on the type of unit.

Income Taxes - In 2017 and 2016, the Association filed its corporate income tax returns as a membership organization recognizing the applicability of IRS code section 277, which segregates membership and non-membership activities, without the right of offset. The Association may apply the excess of membership revenue over related expenses, if any, to the subsequent year. When applicable, this is shown as a liability. Accordingly, the Association is taxed on only its net non-membership revenue (primarily interest earned) at graduated corporation rates.

Concentration of Credit Risk - The Association maintains its cash balances at several financial institutions. The aggregate accounts at each institution are secured by the Federal Deposit Insurance Corporation up to \$250,000. Aggregate uninsured balances are approximately \$13,911 and \$5,516 at December 31, 2017 and 2016, respectively. The Association's operating and money market accounts have a surety bond for the excess of funds above the FDIC limit. The amounts at the end of 2017 and 2016 were \$1,261,068 and \$624,088, respectively.

(Continued)

BRAMBLETON COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Continued)

SIGNIFICANT ACCOUNTING POLICIES:

Assessments - Association members are subject to monthly assessments to provide for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represents assessments due from owners. The Association's policy is to retain legal counsel to pursue collections from owners that are delinquent in paying their assessments. The Association considers all assessments receivable net of allowance for doubtful accounts at December 31, 2017 and 2016 to be fully collectible. Any excess assessments at year-end are retained by the Association for use in the succeeding year.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Flows - For purposes of the statements of cash flows, checking and money market accounts are considered to be cash. Certificates of deposit held as true investments or for repair and replacement fund purposes are considered investments.

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BRAMBLETON COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Continued)

NOTE 1 - CERTIFICATES OF DEPOSIT:

The certificates of deposit as of December 31, 2017 and 2016 with varying interest rates and maturities are shown below:

<u>Account Type</u>	<u>Year of Maturity</u>	<u>Amount</u>	
		<u>2017</u>	<u>2016</u>
CDs	2017	\$ -	\$ 463,001
CDs	2018	503,975	374,516
CDs	2019	697,561	448,214
CD	2020	200,000	200,000
CD	2021	803,375	799,129
CD	2022	644,000	-
Total certificates of deposit		<u>\$2,848,911</u>	<u>\$2,284,860</u>

As of December 31, 2017, the Association owns fourteen certificates of deposit, and the interest rates range from 1.05% to 2.5%.

NOTE 2 - ASSESSMENTS RECEIVABLE, NET:

The Association established an allowance for doubtful accounts to more reasonably estimate the value of assessments receivable, at each year-end.

	<u>2017</u>	<u>2016</u>
Assessments receivable	\$ 177,849	\$ 222,967
Assessments receivable - costs	40,270	40,777
Less allowance for doubtful accounts	<u>(162,780)</u>	<u>(129,738)</u>
Assessments receivable, net	<u>\$ 55,339</u>	<u>\$ 134,006</u>

(Continued)

BRAMBLETON COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
 (Continued)

NOTE 3 - RESERVE FUNDS:

The reserve funds are segregated into various accounts as shown below:

	<u>2017</u>	<u>2016</u>
General reserves	\$1,643,108	\$1,333,634
Single-family attached	767,485	607,633
Single-family detached	530,425	504,194
Recreation	420,010	394,416
Subtotal	<u>3,361,028</u>	<u>2,839,877</u>
Capital improvements	<u>1,003,068</u>	<u>1,003,068</u>
 Total reserve funds	 <u>\$4,364,096</u>	 <u>\$3,842,945</u>

NOTE 4 - RESERVE FUNDS STATUS:

The cash and certificates of deposit available for the funds, after providing for liabilities, at each year-end, are:

	<u>2017</u>	<u>2016</u>
Cash	\$2,952,767	\$2,684,985
Certificates of deposit	<u>2,848,911</u>	<u>2,284,860</u>
Total cash and certificates of deposit	5,801,678	4,969,845
Less liabilities	<u>(1,195,187)</u>	<u>(1,180,472)</u>
Cash and certificates of deposit available for reserve funds	4,606,491	3,789,373
Less reserve funds	<u>(4,364,096)</u>	<u>(3,842,945)</u>
 Excess (deficiency)	 <u>\$ 242,395</u>	 <u>\$ (53,572)</u>

The above computation is a measurement of liquidity and not an indication of the adequacy of the fund for its intended purpose.

BRAMBLETON COMMUNITY ASSOCIATION
SCHEDULES OF EXPENSES
FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Administrative:		
Office supplies	\$ 6,866	\$ 8,782
Office equipment	15,995	14,381
Postage	23,646	20,347
Printing and copying	31,398	39,102
Collections - management	22,870	36,007
Office telecommunication services	16,359	15,155
Bank charges	147	1,233
Miscellaneous	2,322	6,101
Income taxes	17,864	9,177
Insurance	90,250	82,783
Board/Committee expenses	-	9,998
Social activities	234,325	251,806
Bad debt expense	44,253	29,454
Depreciation	18,642	18,897
IT solutions/Support	34,227	27,454
Office lease	45,000	45,000
Community partnerships	-	5,000
Property taxes	5,664	5,154
Permitting/Fees	1,630	835
Volunteer recruitment	4,646	2,694
BAC apparel	3,375	2,987
Programming expenses	8,635	378
Total administrative	<u>628,114</u>	<u>632,725</u>
Professional services:		
Legal fees	12,274	5,429
Legal fees - collections	31,316	33,633
Audit and income tax return preparation	13,400	12,950
Management fees	151,073	137,391
Management staff reimbursement	1,175,032	1,082,166
Training and education	13,017	15,046
Computer support and graphics services	20,194	14,474
Website	6,147	15,557
Consulting and engineering	-	10,552
Dues and subscriptions	5,245	3,162
Contract labor	-	10,496
Total professional services	<u>1,427,698</u>	<u>1,340,856</u>

(Continued)

BRAMBLETON COMMUNITY ASSOCIATION
SCHEDULES OF EXPENSES
FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016
 (Continued)

	<u>2017</u>	<u>2016</u>
Maintenance and services:		
Water and sewer	\$ 331	\$ 1,670
Common electricity	20,619	18,358
Feature/Irrigation electric	27,022	26,988
Streetlight electric	62,173	59,064
Gas	3,307	4,328
Landscape maintenance contract	1,124,113	1,128,037
Snow removal	12,696	133,813
Janitorial contract	26,965	31,587
Retention pond maintenance	39,527	43,597
Floral rotations	37,245	35,634
Irrigation maintenance	38,265	52,237
Irrigation water	244,510	283,184
General repair and maintenance	10,850	4,606
HVAC contract	2,551	1,375
Maintenance supplies and equipment	7,288	7,720
Capital expenses	200,455	151,605
Vehicle expenses	19,889	14,459
Fire/Security system monitoring	4,743	3,734
Landscaping projects	23,295	16,651
Patrol services	12,542	35,745
Tree pruning/Maintenance	69,723	16,923
Dog waste supplies	17,898	11,204
Rental equipment/Trucks	205	453
Pest control	100	100
Street light repairs	2,398	9,706
Total maintenance and services	<u>2,008,710</u>	<u>2,092,778</u>
Limited common expense:		
Telecommunication services	<u>5,916,295</u>	<u>5,636,294</u>
Total limited common expense	<u>5,916,295</u>	<u>5,636,294</u>
Single-family attached expenses:		
Trash service	388,194	351,933
Repair/Maintenance/Supply	2,205	2,810
Snow removal	10,678	147,299
Grounds maintenance	<u>356,922</u>	<u>314,334</u>
Total single-family attached expenses	<u>757,999</u>	<u>816,376</u>

(Continued)

BRAMBLETON COMMUNITY ASSOCIATION
SCHEDULES OF EXPENSES
FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016
(Continued)

	<u>2017</u>	<u>2016</u>
Single-family detached expenses:		
Trash service	\$ <u>463,251</u>	\$ <u>445,085</u>
Total single-family detached expenses	<u>463,251</u>	<u>445,085</u>
Recreation expenses:		
Pool management contract	285,901	275,654
Pool repair and maintenance	11,768	12,302
Pool supplies	10,031	14,799
Pool telephone	681	2,221
Pool water	16,567	14,472
Pool electric	13,728	22,388
Pool gas	3,787	2,181
Pool janitorial	6,160	3,380
Pool floral rotations	-	3,000
Pool concessions	-	384
Total recreation expenses	<u>348,623</u>	<u>350,781</u>
Common driveway expenses:		
Snow removal	1,000	1,445
Repair/Maintenance/Supply	-	115
Total common driveway expenses	<u>1,000</u>	<u>1,560</u>
TOTAL EXPENSES	<u>\$ 11,551,690</u>	<u>\$ 11,316,455</u>

BRAMBLETON COMMUNITY ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2017
(Unaudited)

A registered professional engineer conducted a study in 2015 to estimate the remaining useful lives and the replacement costs of the existing capital components of common property. The estimates were based on future estimated replacement costs. The following table is based on the study and presents significant information about the capital components of common property.

<u>Components</u>	<u>2015 Estimated Remaining Useful Lives (Yrs)</u>	<u>2015 Estimated Future Replacement Costs</u>	<u>2018 Budgeted Funding Provisions</u>
General	0-48	\$ 3,778,524	\$
Irrigation, water feature and lighting	0-48	6,275,280	
Townhome	0-18	4,689,950	
Recreation	0-59	3,182,086	
Common drive	0-16	<u>975,787</u>	
Total		<u>\$18,901,627</u>	<u>\$ 884,045</u>
Repair and replacement funds balance at December 31, 2017		<u>\$ 3,361,028</u>	

The firm which prepared the reserve study added a new component category in this update. It is for Irrigation, Water Feature and Lighting. No funds were allocated as of December 31, 2016 or in the 2018 budget for these components. Management believes some of these components are not the Association's responsibility and are working on that final determination.

There are component cycles where replacement is less than 100%. Some components are excluded from this study. Please refer to the study for more complete information.

Please refer to Note 3 on page 9 of this report for the various reserve funds balances of the Association.