

BRAMBLETON COMMUNITY ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015, 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, 2017

BRAMBLETON COMMUNITY ASSOCIATION  
BALANCE SHEETS  
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Cash	\$ 485,226	\$ 1,614,381
Money market	<u>2,199,759</u>	<u>1,812,929</u>
Total cash	2,684,985	3,427,310
Certificates of deposit (note 1)	2,284,860	1,800,838
Assessments receivable, net (note 2)	134,006	79,688
Accounts receivable	88,533	11,977
Prepaid expenses	23,719	35,907
Vehicles	156,272	156,272
Accumulated depreciation	<u>(118,193)</u>	<u>(99,296)</u>
 TOTAL ASSETS	 <u>\$ 5,254,182</u>	 <u>\$ 5,412,696</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<u>LIABILITIES:</u>		
Accounts payable	\$ 692,867	\$ 712,750
Deferred income	-	10,456
Prepaid assessments	<u>487,605</u>	<u>531,780</u>
Total liabilities	<u>1,180,472</u>	<u>1,254,986</u>
<u>MEMBERS' EQUITY:</u>		
Reserve funds (notes 3 and 4)	3,842,945	3,735,518
Members' equity	<u>230,765</u>	<u>422,192</u>
Total members' equity	<u>4,073,710</u>	<u>4,157,710</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 <u>\$ 5,254,182</u>	 <u>\$ 5,412,696</u>

See accompanying notes and independent auditor's report

BRAMBLETON COMMUNITY ASSOCIATION  
STATEMENTS OF REVENUE AND EXPENSES  
FOR THE YEARS ENDED  
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>REVENUE:</u>		
Assessments	\$ 10,886,060	\$ 9,782,504
Declarant/Builder one-time assessments	109,000	218,500
Capital contributions	146,000	205,000
Less reserve funds assessments	<u>(722,612)</u>	<u>(562,781)</u>
Operating assessments	10,418,448	9,643,223
Interest	39,041	29,367
Activities	265,110	373,483
Late fees	50,708	46,204
Miscellaneous	<u>86,052</u>	<u>77,041</u>
Total operating revenue	<u>10,859,359</u>	<u>10,169,318</u>
<u>EXPENSES:</u>		
Administrative	632,725	625,166
Professional services	1,340,856	1,120,556
Maintenance and services	2,092,778	1,754,198
Limited common expense	5,636,294	5,250,219
Single-family attached expenses	816,376	610,220
Single-family detached expenses	445,085	419,490
Recreation expenses	350,781	379,918
Common driveway expenses	<u>1,560</u>	<u>649</u>
Total expenses	<u>11,316,455</u>	<u>10,160,416</u>
Excess (deficiency) of revenue over expenses before transfer from general operating fund	(457,096)	8,902
Transfer from general operating fund	<u>265,669</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	<u>\$ (191,427)</u>	<u>\$ 8,902</u>

See accompanying notes and independent auditor's report

BRAMBLETON COMMUNITY ASSOCIATION  
STATEMENTS OF MEMBERS' EQUITY  
FOR THE YEARS ENDED  
DECEMBER 31, 2016 AND 2015

	<u>Reserve Funds</u>	<u>Members' Equity</u>
Balance at December 31, 2014	\$ 3,172,737	\$ 413,290
Additions:		
Reserve funds assessments	562,781	
Excess of revenue over expenses		<u>8,902</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		<u>(191,427)</u>
Balance at December 31, 2016	<u>\$ 3,842,945</u>	<u>\$ 230,765</u>

See accompanying notes and independent auditor's report

BRAMBLETON COMMUNITY ASSOCIATION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED  
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Excess (deficiency) of revenue over expenses	\$ (191,427)	\$ 8,902
Adjustments needed to reconcile excess (deficiency) of revenue over expenses to net cash provided by (used for) operating activities:		
Reserve fund assessments	722,612	562,781
Reserve fund expenditures	(349,516)	-
Transfer from general operating fund	(265,669)	-
Depreciation	18,897	24,309
(Increase) decrease in assessments receivable, net	(54,318)	26,028
(Increase) decrease in accounts receivable	(76,556)	17,534
(Increase) decrease in prepaid expenses	12,188	(10,390)
Increase (decrease) in accounts payable	(19,883)	90,143
(Decrease) in income taxes payable	-	(4,930)
Increase (decrease) in deferred income	(10,456)	10,456
Increase (decrease) in prepaid assessments	<u>(44,175)</u>	<u>122,822</u>
Net cash provided by (used for) operating activities	<u>(258,303)</u>	<u>847,655</u>
Cash flows from investing activities:		
Redemption of certificates of deposit	605,818	1,570,487
Purchase of certificates of deposit	<u>(1,089,840)</u>	<u>(1,001,973)</u>
Net cash provided by (used for) investing activities	<u>(484,022)</u>	<u>568,514</u>
Net increase (decrease) in cash	(742,325)	1,416,169
Cash at beginning of year	<u>3,427,310</u>	<u>2,011,141</u>
Cash at end of year	<u>\$ 2,684,985</u>	<u>\$ 3,427,310</u>
Interest expense paid in cash during year	<u>\$ 627</u>	<u>\$ 661</u>
Income taxes paid in cash during year	<u>\$ 8,603</u>	<u>\$ 15,569</u>

See accompanying notes and independent auditor's report

BRAMBLETON COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

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, 2016, there are approximately 5,061 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, 2017, 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.

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BRAMBLETON COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015  
(Continued)

SIGNIFICANT ACCOUNTING POLICIES:

Reserve Funds: (Continued)

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.

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 \$500 or \$375, depending on the type of unit.

Income Taxes - In 2016 and 2015, 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.

Assessments - Unit owners are charged an annual assessment, collected monthly, to provide for the care, maintenance, and a reserve for the repair and replacement of the common elements. These assessments are determined annually by the Board of Directors based on the needs of the Association.

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BRAMBLETON COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015  
(Continued)

SIGNIFICANT ACCOUNTING POLICIES:

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 \$5,516 and \$580,178 at December 31, 2016 and 2015, respectively. The Association began using a new operating account in 2016. The bank has acquired a surety bond for the excess of funds above the FDIC limit. The amount at the end of 2016 was \$624,088.

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.

NOTE 1 - CERTIFICATES OF DEPOSIT:

The certificates of deposit as of December 31, 2016 and 2015 with varying interest rates and maturities are shown below:

<u>Account Type</u>	<u>Year of Maturity</u>	<u>Amount</u>	
		<u>2016</u>	<u>2015</u>
CDs	2016	\$ -	\$ 602,205
CDs	2017	463,001	457,530
CDs	2018	374,516	251,103
CD	2019	448,214	245,000
CD	2020	200,000	-
CD	2021	799,129	245,000
Total certificates of deposit		<u>\$2,284,860</u>	<u>\$1,800,838</u>

As of December 31, 2016, the Association owns eleven certificates of deposit, and the interest rates range from 1.05% to 2.1%.

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BRAMBLETON COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015  
 (Continued)

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>2016</u>	<u>2015</u>
Assessments receivable	\$ 222,967	\$ 151,785
Assessments receivable - costs	40,777	36,147
Less allowance for doubtful accounts	<u>(129,738)</u>	<u>(108,244)</u>
Assessments receivable, net	<u>\$ 134,006</u>	<u>\$ 79,688</u>

NOTE 3 - RESERVE FUNDS:

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

	<u>2016</u>	<u>2015</u>
General reserves	\$1,333,634	\$1,159,539
Single-family attached	607,633	496,066
Single-family detached	504,194	490,369
Recreation	<u>394,416</u>	<u>320,807</u>
Subtotal	2,839,877	2,466,781
General operating	-	265,669
Capital improvements	<u>1,003,068</u>	<u>1,003,068</u>
Total reserve funds	<u>\$3,842,945</u>	<u>\$3,735,518</u>

(Continued)

BRAMBLETON COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015  
 (Continued)

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>2016</u>	<u>2015</u>
Cash	\$2,684,985	\$3,427,310
Certificates of deposit	<u>2,284,860</u>	<u>1,800,838</u>
Total cash and certificates of deposit	4,969,845	5,228,148
Less liabilities	<u>(1,180,472)</u>	<u>(1,254,986)</u>
Cash and certificates of deposit available for reserve funds	3,789,373	3,973,162
Less reserve funds	<u>(3,842,945)</u>	<u>(3,735,518)</u>
Excess (deficiency)	<u>\$ (53,572)</u>	<u>\$ 237,644</u>

As of December 31, 2016, the Association has used \$53,572 of funds intended for reserve equity accounts for operating expenditures.

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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Administrative:		
Office supplies	\$ 8,782	\$ 8,980
Office equipment	14,381	12,039
Postage	20,347	21,796
Printing and copying	39,102	29,670
Collections - management	36,007	36,050
Office telecommunication services	15,155	11,377
Bank charges	1,233	852
Miscellaneous	6,101	11,290
Income taxes	9,177	9,048
Insurance	82,783	80,653
Board/Committee expenses	9,998	7,668
Social activities	251,806	264,285
Bad debt expense	29,454	3,188
Depreciation	18,897	24,309
IT solutions/Support	27,454	24,502
Office lease	45,000	45,000
Community partnerships	5,000	4,500
Property taxes	5,154	4,460
Permitting/Fees	835	1,671
Volunteer recruitment	2,694	3,604
BAC apparel	2,987	2,177
Programming expenses	378	18,047
Total administrative	632,725	625,166
Professional services:		
Legal fees	5,429	3,689
Legal fees - collections	33,633	34,698
Audit and income tax return preparation	12,950	11,950
Management fees	137,391	124,704
Management staff reimbursement	1,082,166	890,106
Training and education	15,046	8,956
Computer support and graphics services	14,474	14,114
Website	15,557	6,389
Consulting and engineering	10,552	9,860
Dues and subscriptions	3,162	3,853
Contract labor	10,496	12,237
Total professional services	1,340,856	1,120,556

(Continued)

BRAMBLETON COMMUNITY ASSOCIATION  
SCHEDULES OF EXPENSES  
FOR THE YEARS ENDED  
DECEMBER 31, 2016 AND 2015  
(Continued)

	<u>2016</u>	<u>2015</u>
Maintenance and services:		
Water and sewer	\$ 1,670	\$ 1,082
Common electricity	18,358	25,008
Feature/Irrigation electric	26,988	31,910
Streetlight electric	59,064	53,406
Gas	4,328	305
Landscape maintenance contract	1,128,037	965,280
Snow removal	133,813	18,409
Janitorial contract	31,587	27,715
Retention pond maintenance	43,597	33,020
Floral rotations	35,634	45,316
Irrigation maintenance	52,237	24,904
Irrigation water	283,184	64,432
General repair and maintenance	4,606	7,425
HVAC contract	1,375	1,375
Maintenance supplies and equipment	7,720	8,578
Capital expenses	151,605	344,668
Vehicle expenses	14,459	14,265
Fire/Security system monitoring	3,734	4,178
Landscaping projects	16,651	34,389
Patrol services	35,745	30,487
Tree pruning/Maintenance	16,923	7,727
Dog waste supplies	11,204	7,633
Rental equipment/Trucks	453	300
Pest control	100	590
Street light repairs	9,706	1,796
Total maintenance and services	<u>2,092,778</u>	<u>1,754,198</u>
Limited common expense:		
Telecommunication services	<u>5,636,294</u>	<u>5,250,219</u>
Total limited common expense	<u>5,636,294</u>	<u>5,250,219</u>
Single-family attached expenses:		
Trash service	351,933	306,202
Repair/Maintenance/Supply	2,810	-
Snow removal	147,299	42,466
Grounds maintenance	<u>314,334</u>	<u>261,552</u>
Total single-family attached expenses	<u>816,376</u>	<u>610,220</u>

(Continued)

BRAMBLETON COMMUNITY ASSOCIATION  
SCHEDULES OF EXPENSES  
FOR THE YEARS ENDED  
DECEMBER 31, 2016 AND 2015  
(Continued)

	<u>2016</u>	<u>2015</u>
Single-family detached expenses:		
Trash service	\$ 445,085	\$ 419,490
Total single-family detached expenses	<u>445,085</u>	<u>419,490</u>
Recreation expenses:		
Pool management contract	275,654	287,322
Pool repair and maintenance	12,302	16,483
Pool supplies	14,799	14,509
Pool telephone	2,221	3,262
Pool water	14,472	23,863
Pool electric	22,388	22,377
Pool gas	2,181	3,131
Pool janitorial	3,380	8,971
Pool floral rotations	3,000	-
Pool concessions	384	-
Total recreation expenses	<u>350,781</u>	<u>379,918</u>
Common driveway expenses:		
Snow removal	1,445	-
Repair/Maintenance/Supply	115	649
Total common driveway expenses	<u>1,560</u>	<u>649</u>
TOTAL EXPENSES	<u>\$ 11,316,455</u>	<u>\$ 10,160,416</u>

BRAMBLETON COMMUNITY ASSOCIATION  
SUPPLEMENTARY INFORMATION ON FUTURE  
MAJOR REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2016  
 (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>	2015 Estimated Remaining Useful Lives (Yrs)	2015 Estimated Future Replacement Costs	2017 Budgeted Funding Provisions
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>\$ 758,353</u>
Repair and replacement funds balance at December 31, 2016		<u>\$ 2,839,877</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 2017 budget for these components. Management believes some of these components are not the Associations' 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 8 of this report for the various reserve funds balances of the Association.