



BURKE CENTRE CONSERVANCY
Financial Statements
and Supplementary Information
with
Independent Auditors' Report
December 31, 2017 and 2016

BURKE CENTRE CONSERVANCY
December 31, 2017 and 2016

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...improving the lives of our staff, clients and community
with innovation, trust and integrity.

Allen P. DeLeon, CPA, PFS, CITP
Richard C. Stang, CPA, PFS, ABV
Jeanie Price, PAFM
Bradly L. Hoffman, CPA
Daniel L. Dellon, CPA, ABV, CFF

www.deleonandstang.com

INDEPENDENT AUDITORS' REPORT

**Board of Directors
Burke Centre Conservancy
Burke, Virginia**

Report on the Financial Statements

We have audited the accompanying financial statements of Burke Centre Conservancy, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations and comprehensive income, changes in 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 or internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to 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.

BURKE CENTRE CONSERVANCY

Independent Auditors' Report

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Opinion

In our opinion, the financial statements referred to above present fairly, in all materials respects, the financial position of Burke Centre Conservancy as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of future major repairs and replacements on Page 17 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.

DeLeon & Stang

DeLeon & Stang, CPAs
Gaithersburg, Maryland
March 12, 2018

BURKE CENTRE CONSERVANCY
Balance Sheets
December 31, 2017 and 2016

| | <u>Operating Fund</u> | <u>Reserve Funds</u> | <u>Cluster Reserves</u> | <u>Total 2017</u> |
|--|---------------------------|--------------------------|-----------------------------|--------------------------|
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents | \$ 817,258 | \$ 5,635,052 | \$ 3,620,082 | \$ 10,072,392 |
| Restricted cash, pipestem escrow | 354,147 | - | - | 354,147 |
| Marketable securities | - | 1,140,471 | 221,259 | 1,361,730 |
| Accounts receivable, net | 116,491 | - | 40,242 | 156,733 |
| Accrued interest receivable | 2,267 | 52,544 | 34,440 | 89,251 |
| Prepaid expenses | 211,863 | - | - | 211,863 |
| Deposits and other receivables | 1,720 | - | - | 1,720 |
| Due from operating fund | - | 214,678 | 70,073 | 284,751 |
| Property and equipment, net of accumulated depreciation | <u>92,801</u> | <u>-</u> | <u>-</u> | <u>92,801</u> |
| Total assets | <u>\$ 1,596,547</u> | <u>\$ 7,042,745</u> | <u>\$ 3,986,096</u> | <u>\$ 12,625,388</u> |
| <u>LIABILITIES AND MEMBERS' EQUITY</u> | | | | |
| <u>Liabilities:</u> | | | | |
| Accounts payable and accrued expenses | \$ 115,661 | \$ - | \$ - | \$ 115,661 |
| Due to reserve funds | 284,751 | - | - | 284,751 |
| Deferred revenue | 100,527 | - | - | 100,527 |
| Pipestem escrow liability | <u>354,147</u> | <u>-</u> | <u>-</u> | <u>354,147</u> |
| Total liabilities | 855,086 | - | - | 855,086 |
| <u>Members' equity:</u> | | | | |
| Capital replacement fund | - | 6,632,730 | - | 6,632,730 |
| Capital improvement fund | - | 75,117 | - | 75,117 |
| Cluster discretionary fund | - | - | 647,983 | 647,983 |
| Cluster reserve fund | - | - | 2,874,378 | 2,874,378 |
| Cluster snow reserve fund | - | - | 399,583 | 399,583 |
| Operating reserve fund | 129,074 | - | - | 129,074 |
| Unappropriated members' equity | 612,387 | - | - | 612,387 |
| Accumulated other comprehensive income | <u>-</u> | <u>334,898</u> | <u>64,152</u> | <u>399,050</u> |
| Total members' equity | <u>741,461</u> | <u>7,042,745</u> | <u>3,986,096</u> | <u>11,770,302</u> |
| Total liabilities and members' equity | <u>\$ 1,596,547</u> | <u>\$ 7,042,745</u> | <u>\$ 3,986,096</u> | <u>\$ 12,625,388</u> |

See Accompanying Notes to the Financial Statements.

BURKE CENTRE CONSERVANCY
Balance Sheets
December 31, 2017 and 2016 (Continued)

| | Operating Fund | Reserve Funds | Cluster Reserves | Total 2016 |
|--|---------------------------|--------------------------|-----------------------------|--------------------------|
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents | \$ 555,716 | \$ 5,169,521 | \$ 3,480,815 | \$ 9,206,052 |
| Restricted cash, pipestem escrow | 346,187 | - | - | 346,187 |
| Marketable securities | - | 948,887 | 184,091 | 1,132,978 |
| Accounts receivable, net | 111,165 | - | 38,355 | 149,520 |
| Accrued interest receivable | 929 | 31,499 | 20,383 | 52,811 |
| Prepaid expenses | 60,929 | - | - | 60,929 |
| Deposits and other receivables | 1,720 | - | - | 1,720 |
| Due from reserve funds | 28,105 | - | - | 28,105 |
| Property and equipment, net of accumulated depreciation | 128,003 | - | - | 128,003 |
| Total assets | <u>\$ 1,232,754</u> | <u>\$ 6,149,907</u> | <u>\$ 3,723,644</u> | <u>\$ 11,106,305</u> |
| <u>LIABILITIES AND MEMBERS' EQUITY</u> | | | | |
| <u>Liabilities:</u> | | | | |
| Accounts payable and accrued expenses | \$ 179,212 | \$ - | \$ - | \$ 179,212 |
| Due to operating fund | - | 23,580 | 4,525 | 28,105 |
| Deferred revenue | 101,942 | - | - | 101,942 |
| Pipestem escrow liability | 346,187 | - | - | 346,187 |
| Total liabilities | 627,341 | 23,580 | 4,525 | 655,446 |
| <u>Members' equity:</u> | | | | |
| Capital replacement fund | - | 5,827,688 | - | 5,827,688 |
| Capital improvement fund | - | 75,087 | - | 75,087 |
| Cluster discretionary fund | - | - | 643,752 | 643,752 |
| Cluster reserve fund | - | - | 2,693,833 | 2,693,833 |
| Cluster snow reserve fund | - | - | 338,984 | 338,984 |
| Operating reserve fund | 129,074 | - | - | 129,074 |
| Unappropriated members' equity | 476,339 | - | - | 476,339 |
| Accumulated other comprehensive income | - | 223,552 | 42,550 | 266,102 |
| Total members' equity | <u>605,413</u> | <u>6,126,327</u> | <u>3,719,119</u> | <u>10,450,859</u> |
| Total liabilities and members' equity | <u>\$ 1,232,754</u> | <u>\$ 6,149,907</u> | <u>\$ 3,723,644</u> | <u>\$ 11,106,305</u> |

See Accompanying Notes to the Financial Statements.

BURKE CENTRE CONSERVANCY
Statements of Operations and Comprehensive Income
For the Years ended December 31, 2017 and 2016

| | Operating Fund | Reserve Funds | Cluster Reserves | Total 2017 |
|---|---------------------------|--------------------------|-----------------------------|-----------------------|
| Revenue: | | | | |
| Assessments | \$ 3,491,953 | \$ 816,829 | \$ 453,517 | \$ 4,762,299 |
| Pool | 510,961 | - | - | 510,961 |
| Community services | 309,423 | - | - | 309,423 |
| Investment income | 2,100 | 109,112 | 34,292 | 145,504 |
| Other | <u>76,551</u> | <u>-</u> | <u>-</u> | <u>76,551</u> |
| Total revenues | 4,390,988 | 925,941 | 487,809 | 5,804,738 |
| Expenses: | | | | |
| Personnel | 1,397,209 | - | - | 1,397,209 |
| Land services and trash removal | 1,152,319 | - | - | 1,152,319 |
| Resources | 435,677 | - | - | 435,677 |
| Pool | 393,519 | - | - | 393,519 |
| Cluster discretionary | - | - | 165,115 | 165,115 |
| Capital replacements and improvements | - | 120,869 | - | 120,869 |
| Administrative | 247,134 | - | - | 247,134 |
| Community services | 185,101 | - | - | 185,101 |
| Community center | 170,591 | - | - | 170,591 |
| Professional | 148,156 | - | - | 148,156 |
| Environmental cleanup and other special projects | 41,013 | - | - | 41,013 |
| Cluster reserve | - | - | 77,319 | 77,319 |
| Other | 30,175 | - | - | 30,175 |
| Depreciation | 35,202 | - | - | 35,202 |
| Tennis | 3,987 | - | - | 3,987 |
| Burke field | 7,215 | - | - | 7,215 |
| Taxes, property | <u>7,642</u> | <u>-</u> | <u>-</u> | <u>7,642</u> |
| Total expenses | <u>4,254,940</u> | <u>120,869</u> | <u>242,434</u> | <u>4,618,243</u> |
| Excess of revenues over expenses | 136,048 | 805,072 | 245,375 | 1,186,495 |
| Other comprehensive loss: | | | | |
| Net unrealized investment gains | <u>-</u> | <u>111,346</u> | <u>21,602</u> | <u>132,948</u> |
| Total comprehensive income | <u>\$ 136,048</u> | <u>\$ 916,418</u> | <u>\$ 266,977</u> | <u>\$ 1,319,443</u> |

BURKE CENTRE CONSERVANCY
Statements of Operations and Comprehensive Income
For the Years ended December 31, 2017 and 2016 (Continued)

| | <u>Operating Fund</u> | <u>Reserve Funds</u> | <u>Cluster Reserves</u> | <u>Total 2016</u> |
|---|---------------------------|--------------------------|-----------------------------|-----------------------|
| <u>Revenues:</u> | | | | |
| Assessments | \$ 3,427,599 | \$ 793,787 | \$ 452,698 | \$ 4,674,084 |
| Pool | 536,568 | - | - | 536,568 |
| Community services | 303,754 | - | - | 303,754 |
| Investment income | 1,036 | 77,875 | 25,880 | 104,791 |
| Other | 53,804 | - | - | 53,804 |
| Gain on sale of assets | 18,000 | - | - | 18,000 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total revenues | 4,340,761 | 871,662 | 478,578 | 5,691,001 |
| <u>Expenses:</u> | | | | |
| Personnel | 1,415,167 | - | - | 1,415,167 |
| Land services and trash removal | 1,151,007 | - | - | 1,151,007 |
| Resources | 417,940 | - | - | 417,940 |
| Pool | 392,605 | - | - | 392,605 |
| Cluster discretionary | - | - | 593,808 | 593,808 |
| Administrative | 263,662 | - | - | 263,662 |
| Capital replacements and improvements | - | 253,791 | - | 253,791 |
| Community services | 198,022 | - | - | 198,022 |
| Community center | 160,123 | - | - | 160,123 |
| Professional | 148,902 | - | - | 148,902 |
| Environmental cleanup and other special projects | 11,334 | - | - | 11,334 |
| Cluster reserve | - | - | 68,458 | 68,458 |
| Other | 72,889 | - | - | 72,889 |
| Depreciation | 23,905 | - | - | 23,905 |
| Tennis | 4,426 | - | - | 4,426 |
| Burke field | 8,368 | - | - | 8,368 |
| Taxes, property | 7,123 | - | - | 7,123 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total expenses | 4,275,473 | 253,791 | 662,266 | 5,191,530 |
| Excess (deficiency) of revenues over expenses | 65,288 | 617,871 | (183,688) | 499,471 |
| <u>Other comprehensive income:</u> | | | | |
| Net unrealized investment gains | - | 54,650 | 10,603 | 65,253 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total comprehensive income (loss) | <u>\$ 65,288</u> | <u>\$ 672,521</u> | <u>\$ (173,085)</u> | <u>\$ 564,724</u> |

BURKE CENTRE CONSERVANCY
Statements of Changes in Members' Equity
For the Years ended December 31, 2017 and 2016

| | <u>Reserve Funds</u> | | | <u>Cluster Funds</u> | | <u>Total</u> |
|--|-----------------------|----------------------|---|----------------------|---|----------------------|
| | <u>Operating Fund</u> | <u>Fund Balances</u> | <u>Accumulated Other Comprehensive Income</u> | <u>Fund Balances</u> | <u>Accumulated Other Comprehensive Income</u> | |
| Members' equity, December 31, 2015: | \$ 475,748 | \$ 5,349,281 | \$ 168,902 | \$ 3,860,257 | \$ 31,947 | \$ 9,886,135 |
| Excess (deficiency) of revenues over expenses | 65,288 | 617,871 | - | (183,688) | - | 499,471 |
| Other comprehensive income | - | - | 54,650 | - | 10,603 | 65,253 |
| Transfers for capitalized reserve expenditures | <u>64,377</u> | <u>(64,377)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Members' equity, December 31, 2016: | 605,413 | 5,902,775 | 223,552 | 3,676,569 | 42,550 | 10,450,859 |
| Excess of revenues over expenses | 136,048 | 805,072 | - | 245,375 | - | 1,186,495 |
| Other comprehensive income | <u>-</u> | <u>-</u> | <u>111,346</u> | <u>-</u> | <u>21,602</u> | <u>132,948</u> |
| Members' equity, December 31, 2017: | <u>\$ 741,461</u> | <u>\$ 6,707,847</u> | <u>\$ 334,898</u> | <u>\$ 3,921,944</u> | <u>\$ 64,152</u> | <u>\$ 11,770,302</u> |

See Accompanying Notes to the Financial Statements.

BURKE CENTRE CONSERVANCY
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

| | <u>Operating Fund</u> | <u>Reserve Funds</u> | <u>Clusters Reserves</u> | <u>Total 2017</u> |
|--|---------------------------|--------------------------|------------------------------|----------------------|
| <u>Cash Flows From Operating Activities:</u> | | | | |
| Excess of revenues over expenses | \$ 136,048 | \$ 805,072 | \$ 245,375 | \$ 1,186,495 |
| Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities: | | | | |
| Depreciation | 35,202 | - | - | 35,202 |
| Provision for doubtful accounts | 27,941 | - | - | 27,941 |
| (Increase) decrease in operating assets: | | | | |
| Restricted cash, pipestem escrow | (7,960) | - | - | (7,960) |
| Accounts receivable | (33,267) | - | (1,887) | (35,154) |
| Accrued interest receivable | (1,338) | (21,045) | (14,057) | (36,440) |
| Prepaid expenses | (150,934) | - | - | (150,934) |
| Increase (decrease) in operating liabilities: | | | | |
| Accounts payable and accrued expenses | (63,551) | - | - | (63,551) |
| Deferred revenue | (1,415) | - | - | (1,415) |
| Pipestem escrow liability | 7,960 | - | - | 7,960 |
| Total adjustments | <u>(187,362)</u> | <u>(21,045)</u> | <u>(15,944)</u> | <u>(224,351)</u> |
| Net cash provided by (used in) operating activities | (51,314) | 784,027 | 229,431 | 962,144 |
| <u>Cash Flows from Investing Activities:</u> | | | | |
| Purchases of marketable securities | <u>-</u> | <u>(80,238)</u> | <u>(15,566)</u> | <u>(95,804)</u> |
| Net cash used in investing activities | - | (80,238) | (15,566) | (95,804) |
| <u>Cash Flows From Financing Activities:</u> | | | | |
| Net interfund borrowings and (repayments) | <u>312,856</u> | <u>(238,258)</u> | <u>(74,598)</u> | <u>-</u> |
| Net cash provided by (used in) financing activities | <u>312,856</u> | <u>(238,258)</u> | <u>(74,598)</u> | <u>-</u> |
| Net increase in cash and cash equivalents | 261,542 | 465,531 | 139,267 | 866,340 |
| Cash and cash equivalents at beginning of year | <u>555,716</u> | <u>5,169,521</u> | <u>3,480,815</u> | <u>9,206,052</u> |
| Cash and cash equivalents at end of year | <u>\$ 817,258</u> | <u>\$ 5,635,052</u> | <u>\$ 3,620,082</u> | <u>\$ 10,072,392</u> |

See Accompanying Notes to the Financial Statements.

BURKE CENTRE CONSERVANCY
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016 (Continued)

| | <u>Operating</u> <u>Fund</u> | <u>Reserve</u> <u>Funds</u> | <u>Clusters</u> <u>Reserves</u> | <u>Total 2016</u> |
|--|---------------------------------|--------------------------------|------------------------------------|---------------------|
| <u>Cash Flows From Operating Activities:</u> | | | | |
| Excess (deficiency) of revenues over expenses | \$ 65,288 | \$ 617,871 | \$ (183,688) | \$ 499,471 |
| Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities: | | | | |
| Depreciation | 23,905 | - | - | 23,905 |
| Provision for doubtful accounts | 69,355 | - | - | 69,355 |
| Gain on disposal of equipment | (18,000) | - | - | (18,000) |
| (Increase) decrease in operating assets: | | | | |
| Restricted cash, pipestem escrow | 493 | - | - | 493 |
| Accounts receivable | (32,418) | - | (2,270) | (34,688) |
| Accrued interest receivable | (605) | (15,496) | (10,393) | (26,494) |
| Prepaid expenses | (43,446) | - | - | (43,446) |
| Increase (decrease) in operating liabilities: | | | | |
| Accounts payable and accrued expenses | (83,336) | - | - | (83,336) |
| Deferred revenue | 20,353 | - | - | 20,353 |
| Pipestem escrow liability | (493) | - | - | (493) |
| Total adjustments | <u>(64,192)</u> | <u>(15,496)</u> | <u>(12,663)</u> | <u>(92,351)</u> |
| Net cash provided by (used in) operating activities | 1,096 | 602,375 | (196,351) | 407,120 |
| <u>Cash Flows from Investing Activities:</u> | | | | |
| Purchases of property and equipment | (82,377) | - | - | (82,377) |
| Proceeds from disposal of fixed assets | 18,000 | - | - | 18,000 |
| Purchases of marketable securities | <u>-</u> | <u>(57,515)</u> | <u>(11,159)</u> | <u>(68,674)</u> |
| Net cash used in investing activities | (64,377) | (57,515) | (11,159) | (133,051) |
| <u>Cash Flows From Financing Activities:</u> | | | | |
| Net interfund borrowings and (repayments) | 13,036 | (9,803) | (3,233) | - |
| Transfers for capitalized reserves expenditures | <u>64,377</u> | <u>(64,377)</u> | <u>-</u> | <u>-</u> |
| Net cash provided by (used in) financing activities | <u>77,413</u> | <u>(74,180)</u> | <u>(3,233)</u> | <u>-</u> |
| Net increase (decrease) in cash and cash equivalents | 14,132 | 470,680 | (210,743) | 274,069 |
| Cash and cash equivalents, at beginning of year | <u>541,584</u> | <u>4,698,841</u> | <u>3,691,558</u> | <u>8,931,983</u> |
| Cash and cash equivalents, at end of year | <u>\$ 555,716</u> | <u>\$ 5,169,521</u> | <u>\$ 3,480,815</u> | <u>\$ 9,206,052</u> |

BURKE CENTRE CONSERVANCY
Notes to the Financial Statements
December 31, 2017 and 2016

NOTE 1 - NATURE OF ORGANIZATION

Burke Centre Conservancy (the Conservancy) was incorporated on June 21, 1976 in the Commonwealth of Virginia. The Conservancy is responsible for the operation and maintenance of the common property within the development. The development consists of 5,862 residential units located on approximately 1,700 acres in Burke, Virginia.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Association maintains its records on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Conservancy 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 revenues and expenses during the report period. Actual results could differ from those estimates.

Fund Accounting

The Conservancy'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 Conservancy maintains its accounts using fund accounting. Financial sources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating reserve fund: This fund is to be used for unanticipated major operating expenditures or income shortfalls, uninsured casualty losses, and budget overruns caused by unforeseen events.

Reserve funds: These funds are used to accumulate financial resources designated for future major repairs, replacements and improvements.

Cluster reserves: These funds are accumulated for the benefit of the individual clusters. The cluster reserve fund is available for maintenance and improvement of cluster streets, curbs, gutters, sidewalk, fire lanes, and other cluster structures. The cluster discretionary fund is for operational needs unique to the individual clusters.

BURKE CENTRE CONSERVANCY
Notes to the Financial Statements (Continued)
December 31, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued)

Unappropriated members' equity: This represents net assets available for the general operation of the Conservancy.

Cash and Cash Equivalents

The Conservancy considers all demand deposits, money market accounts, certificates of deposit and all highly liquid debt instruments purchased with maturities of 90 days or less to be cash equivalents.

Restricted Pipestem Escrow

The Conservancy maintains restricted cash balances on behalf of certain members who own shared private pipestem driveways. These funds are not available for use by the Conservancy in the ordinary course of business.

Marketable Securities

Marketable equity securities are presented on the balance sheet at fair market value. Unrealized holding gains and losses are included as other comprehensive income in the fund balance section of the balance sheet. Realized gains are recognized with cost determined on the first-in, first-out method for mutual fund investments or the specific identification method, when possible.

Equity securities are exposed to various risks such as market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect the investment balances and amounts reported in the financial statements.

The fair value of marketable securities are determined by utilizing quoted market prices on active markets (Level 1) for identical securities.

BURKE CENTRE CONSERVANCY
Notes to the Financial Statements (Continued)
December 31, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable are comprised primarily of assessments receivable that arise from quarterly assessments to members in the community.

Assessments receivable are due under normal trade terms requiring payment within 30 days of the invoice date. Assessments receivable are stated at the amount billed to the member. Account balances over 30 days past due accrue interest 18% per annum, and are considered delinquent when 90 days past due. Assessments receivable in delinquent status at December 31, 2017 and 2016 were \$519,176 and \$479,660. The Conservancy established allowance for doubtful accounts in the amounts of \$388,538 and \$380,000 as of December 31, 2017 and 2016.

Property and Equipment

In accordance with prevalent industry accounting practices, the Conservancy capitalizes all property and equipment to which it has title or other evidence of ownership with the exception of common real property directly or indirectly associated with the units. At December 31, 2017 and 2016, property not capitalized consists principally of land, various roadways, sidewalks, tennis courts, and five community centers and swimming pools. Capitalized property acquired by the Conservancy is recorded at cost and is depreciated over their estimated useful lives using the straight-line method of depreciation as follows:

| | |
|-----------------------------------|--------------|
| Machinery, vehicles and equipment | 5 years |
| Furniture and fixtures | 5 years |
| Office equipment | 3 to 5 years |

Member Assessments

The Conservancy members are subject to quarterly assessments to provide funds for the Conservancy's operating expenses, future capital acquisitions, and major repairs and replacements.

Interest and Investment Income

Interest and investment income are allocated to the operating, reserve and cluster funds in proportion to the cash investments of each fund.

BURKE CENTRE CONSERVANCY
Notes to the Financial Statements (Continued)
December 31, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Conservancy is exempt from tax under Section 501(c)(4) of the Internal Revenue Code. As such, the Conservancy is liable only for income taxes on unrelated business income, at applicable federal and state rates. There were no income taxes arising from unrelated business activities for the year ended December 31, 2017 and 2016.

While the Conservancy is not taxed for federal and state income tax purposes, the Conservancy's policy is to evaluate and review its tax positions on an ongoing basis to ensure compliance with the applicable portions of the Internal Revenue Code.

Federal and state tax returns may be subject to audit for three years after filing, hence the Conservancy's tax returns for the tax year 2014 onward are open to tax examination.

Subsequent Events

The financial statements have been evaluated by management for subsequent events requiring accrual or disclosure through March 12, 2018, the date of the financial statements were available for issuance.

NOTE 3 - PROPERTY AND EQUIPMENT

The historical cost and accumulated depreciation of the property and equipment as of December 31, 2017 and 2016 are as follows:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------|------------------|-------------------|
| Machinery, vehicles and equipment | \$ 589,314 | \$ 589,314 |
| Furniture and fixtures | 86,761 | 86,761 |
| Office equipment | <u>83,118</u> | <u>83,118</u> |
| | 759,193 | 759,193 |
| Accumulated depreciation | <u>(666,392)</u> | <u>(631,190)</u> |
| Property and equipment, net | <u>\$ 92,801</u> | <u>\$ 128,003</u> |

Depreciation expense for the years ended December 31, 2017 and 2016 was \$35,202 and \$23,905, respectively.

BURKE CENTRE CONSERVANCY
Notes to the Financial Statements (Continued)
December 31, 2017 and 2016

NOTE 4 - FUTURE MAJOR REPAIRS AND REPLACEMENT

The Conservancy's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes. The Conservancy is funding for such major repairs and replacements over the estimated useful lives of the components based on estimates of current replacement costs, considering amounts previously accumulated in the replacement funds. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement funds may not be adequate to meet future needs. If additional funds are needed, however, the Conservancy has the right to increase regular assessments or levy special assessments or it may delay major repairs and replacements until funds are available. The Conservancy reserve study was performed in 2014.

NOTE 5 - MARKETABLE SECURITIES

Cost and fair value of marketable equity securities at December 31, 2017 and 2016 are as follows:

| | 2017 | | |
|----------------------------|-------------------|----------------------------|---------------------|
| | Cost | Unrealized Gain | Fair Value |
| Reserve funds | | | |
| Available for sale: | | | |
| Mutual fund, equities | \$ 805,573 | \$ 334,898 | \$ 1,140,471 |
| Cluster Reserves | | | |
| Available for sale: | | | |
| Mutual funds | <u>157,107</u> | <u>64,152</u> | <u>221,259</u> |
| Total maketable securities | <u>\$ 962,680</u> | <u>\$ 399,050</u> | <u>\$ 1,361,730</u> |
| | | | |
| | 2016 | | |
| | Cost | Unrealized Gain | Fair Value |
| Reserve funds | | | |
| Available for sale: | | | |
| Mutual fund, equities | \$ 725,335 | \$ 223,552 | \$ 948,887 |
| Cluster Reserves | | | |
| Available for sale: | | | |
| Mutual fund, equities | <u>141,541</u> | <u>42,550</u> | <u>184,091</u> |
| Total maketable securities | <u>\$ 866,876</u> | <u>\$ 266,102</u> | <u>\$ 1,132,978</u> |

BURKE CENTRE CONSERVANCY
Notes to the Financial Statements (Continued)
December 31, 2017 and 2016

NOTE 5 - MARKETABLE SECURITIES (Continued)

Investment income for the years ended December 31, 2017 and 2016 consists of the following:

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Interest, dividends and interfund gains | <u>\$ 145,504</u> | <u>\$ 104,791</u> |

NOTE 6 - 401(k) PROFIT SHARING PLAN

The Conservancy maintains a qualified profit-sharing plan that includes a 401(k) salary deferral arrangement. The plan covers all full time employees. Under the 401(k) salary deferral arrangement, eligible employees may elect to contribute a portion of their salary each year to the plan. In January 2011, the plan was amended to include safe harbor matching contributions for eligible employees equal to 100% of elective deferrals up to 4% of total compensation. For the years ended 2017 and 2016, the Conservancy contributed \$27,864 and \$31,477 to the plan.

NOTE 7 - OPERATING LEASES

Burke Centre maintained two operating leases, for office equipment, that expire at various dates through March of 2022. Rental expenses for those leases were \$19,487 and \$24,956 for the years ended December 31, 2017 and 2016.

Future minimum lease payments under the operating leases are as follows:

| | |
|------|------------------|
| 2018 | \$ 11,772 |
| 2019 | 11,772 |
| 2020 | 11,772 |
| 2021 | 11,772 |
| 2022 | <u>3,924</u> |
| | <u>\$ 51,012</u> |

NOTE 8 - INTERFUND BALANCES

As of December 31, 2017 and 2016, cash transfers are needed to balance the designated cash and investment accounts of each fund group to their respective equity balances. The interfund balances are the net result of financial transactions for individual fund groups not always being either received by or disbursed from the appropriate cash or investment account.

SUPPLEMENTARY INFORMATION

BURKE CENTRE CONSERVANCY
Schedule of Future Major Repairs and Replacements
December 31, 2017

The Association conducted a study in 2014 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. Estimated replacement costs do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

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

| | Estimated Useful Life | Current Replacement Cost | 2018 Funding Requirement | Fund Balance 12/31/17 |
|--|----------------------------------|---|---|--------------------------------------|
| <u>Capital Replacement Funds:</u> | | | | |
| Community centers and recreational facilities | 15-20 Years | \$ 6,564,989 | \$ 403,576 | \$ 3,250,038 |
| Lynch Farm administrative office and garage office | 15-20 Years | 508,513 | 32,945 | 265,309 |
| Footpaths | 20-25 years | 1,500,215 | 90,599 | 729,600 |
| Miscellaneous structures | 20-40 years | 3,145,336 | 197,670 | 1,591,855 |
| Lakes and pools | 15-20 years | 483,000 | 32,945 | 265,309 |
| Premier court maintenance facility | 15-20 years | 262,271 | 16,473 | 132,655 |
| Maintenance trucks and equipment | 7-10 years | 705,463 | 41,181 | 331,637 |
| Consulting and engineering fees | 5-30 years | 100,000 | 8,236 | 66,327 |
| Capital replacement fund totals: | | 13,269,787 | 823,625 | 6,632,730 |
| <u>Cluster Reserve Funds:</u> | | | | |
| Cluster component elements: | 6-20 years | 7,982,443 | 324,526 | 2,874,378 |
| Total | | \$ 21,252,230 | \$ 1,148,151 | \$ 9,507,108 |