



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.

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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

	Operating Fund	Reserve Funds	Cluster Reserves	Total 2017
<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	92,801	-	-	92,801
 Total assets	\$ 1,596,547	\$ 7,042,745	\$ 3,986,096	\$ 12,625,388
<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	354,147	-	-	354,147
 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	-	334,898	64,152	399,050
 Total members' equity	741,461	7,042,745	3,986,096	11,770,302
 Total liabilities and members' equity	\$ 1,596,547	\$ 7,042,745	\$ 3,986,096	\$ 12,625,388

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

	<u>Operating</u> <u>Fund</u>	<u>Reserve</u> <u>Funds</u>	<u>Cluster</u> <u>Reserves</u>	<u>Total</u> <u>2017</u>
<u>Revenue:</u>				
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
<u>Expenses:</u>				
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
<u>Other comprehensive loss:</u>				
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

	Reserve Funds			Cluster Funds		Total
	Operating Fund	Fund Balances	Accumulated Other Comprehensive Income	Fund Balances	Accumulated Other Comprehensive Income	
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 Fund</u>	<u>Reserve Funds</u>	<u>Clusters 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