



MONTGOMERY VILLAGE FOUNDATION, INC.

**FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION
AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015



DRAPER & MCGINLEY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS • FINANCIAL CONSULTANTS
FREDERICK, MARYLAND

MONTGOMERY VILLAGE FOUNDATION, INC.

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MONTGOMERY VILLAGE FOUNDATION, INC.

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March 2, 2017

To the Board of Directors and Residents of Montgomery Village, Maryland

As management of the Montgomery Village Foundation, Inc. ("MVF"), we offer readers of the Foundation's financial statements this summary and analysis of the financial activities of the Montgomery Village Foundation, Inc. for the year ended December 31, 2016. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Executive Vice President, Montgomery Village Foundation, Inc., 10120 Apple Ridge Road, Montgomery Village, MD 20886.

Financial Summary & Highlights

- Total net assets were \$14,652,840 as of December 31, 2016, an increase of \$918,353 over December 31, 2015. Since 2007, net assets have increased a total of \$7,273,043 as a result of many cost saving initiatives and significant infrastructure improvements including 2 pools and the South Valley Park buildings. (page 8)
- The change in net assets (i.e. net income) for 2016 was an increase of \$918,353 compared to an increase in 2015 of \$718,672. Additionally, Operating Fund net assets were \$1,669,648, an increase of \$171,287 vs. an increase of \$217,987 in 2015. The increase in 2016 exceeded budget expectations by \$518,470 as the MVF Fund was expected to use \$347,182 of undesignated reserves but were not needed. (page 9)
- As of December 31, 2016, the Foundation reported unrestricted net assets of \$8,927,576 (Operating Fund \$1,665,884 and Fixed Asset Fund \$7,261,692), temporarily restricted net assets of \$3,764 and Board designated net assets of \$5,430,365 for reserve replacements and \$291,135 for Capital Contribution Fee projects. (page 25)
- The Foundation's cash and cash equivalents as of December 31, 2016 were \$2,130,323 and investments \$5,802,736. (page 15, note 3 & 4)
- The Foundation's assessments receivable decreased \$91,182 in 2016 and now stands at a net realizable value of \$540,586 vs. \$631,767 in 2015. Included is a \$205,592 allowance for doubtful accounts. With 2 full years under the 2014 revised Collection Policy, Foundation staff continued to make progress in decreasing the outstanding delinquencies over \$220,000 since the change and lowering the delinquency rate to 8.0%. This compares to levels not seen since 2007. (page 19, note 6)
- During 2016, MVF's reserve portfolio exceeded benchmark expectations with a 4.4% return on investment (net of advisory fees). MVF's annual reserve plan projected 3.75% and the benchmark expectation returned 3.8%. Equity securities led the way with an average 13.8% (9.4% benchmark) and an allocation of 29% of the \$5.8M portfolio. (page 29)

- Capital Contribution fees received through December 31, 2016 were \$161,489 as compared to \$136,503 as of December 31, 2015. The 24,986 increase is a direct result of the much improved real estate market in the Village community. (page 9)
- Solar panels at the Lake Marion Community Center were installed during the summer of 2015 and went into full operation by Labor Day. 2016 marks the first full year of solar costs which were anticipated to replace about 50% of the electricity need. Comparing 2016 electrical costs (for all community centers) vs prior years, MVF has recognized a savings of 19.4% since the solar panels were installed versus a budgeted savings of 4.0%. Actual savings for 2016 versus 2015 were \$21,865. (page 23, note 15)
- The 2016 contribution to reserves was \$1,025,212. This reflects the contribution necessary to maintain the Reserve Fund pursuant with the MVF Board's decision to fund the Reserve at 75% of the projected replacement cost per the 2014 reserve study. 2016 marked the 1st year in which the contribution will exceed the \$1,000,000 threshold. (page 21, note 10)
- Capital expenditures for the year ended 2016 totaled \$1,514,258 vs. \$1,030,740 in 2015 and a 2016 budget of \$3,145,960. 2016 actual capital expenses included (page 26):

	MVF	DU	TOTAL
○ Computer/IT, phone, office equipment	\$ 21,488		
○ South Valley Park Restroom	69,401		
○ Tot lots and other park improvements	19,505		
○ Other MVF	46,242		
○ Apple Ridge pool renovation		\$1,093,294	
○ Pool equipment replacements		107,642	
○ Roof replacements/repairs		61,376	
○ Tennis court repairs/resurfacing		20,700	
○ Community Center LED light conversion		15,651	
○ Other (ADA/Tennis court repairs)		58,958	
	<u>\$156,636</u>	<u>\$1,357,622</u>	<u>\$1,514,258</u>

Overview of the Financial Statements

The Montgomery Village Foundation, Inc.'s basic financial statements comprise the following: 1) statement of financial position, 2) statement of activities and changes in net assets, 3) statement of cash flows and 4) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The Foundation's financial statements have been prepared in accordance with Financial Accounting Standards Board's ASC 958-210.

Basic Financial Statements

The *statement of financial position* presents information on all of the Montgomery Village Foundation, Inc.'s assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Foundation is improving or deteriorating. The statement of financial position can be found on page 8 of this report.

The *statement of activities and changes in net assets* presents information showing how the Foundation's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The statement of activities and changes in net assets can be found on page 9 of this report.

The *statement of cash flows* presents information on the sources and uses of the Foundation's cash accounts. The statement of cash flows can be found on page 10 of this report.

The *notes to the financial statements* will provide additional information that is essential to a full understanding of the data provided in the basic financial statements and supplemental schedules. The notes to the financial statements can be found on pages 11-24 of this report.

Included on pages 25 through 30 is additional information which provides a detailed view of MVF's funds and Operating and Reserve sub-funds. The purpose of these supplemental schedules is for analysis and is not a required part of the basic financial statements.

Fund accounting - The Foundation utilizes fund accounting for internal financial reporting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The financial structure of the Foundation consists of three core funds. The first is used to account for the operations of the business activities (Operating Fund), the second holds the capital assets (Fixed Asset Fund), and the third invests designated funds for the future repair and replacement of Foundation assets (Reserve Fund). Of these, it is the Operating Fund which administers the primary activities within several sub-funds. These include:

Montgomery Village Foundation Fund

This Fund provides for the general governance, operation, and maintenance of common properties (parks and lakes), architectural standards and communications. Assessments are levied on all members of the Foundation to support this function.

Designated User Fund

This Fund provides for the operation and maintenance of the community centers, pools, and tennis courts owned by the Foundation. Assessments are levied only on members who are designated to use these facilities.

Poplar Spring Fund

This Fund provides general governance, covenant and architectural standards, and maintenance of an entrance sign and land for this group of 18 homes.

User Fee Fund

This Fund provides fee based recreation programs and activities.

Community Management Fund

This Fund provides management services, at cost, to the homes corporations and condominium associations within Montgomery Village that contract for the service. Revenue is generated from the contracts signed with those homes corporations and/or condominium associations.

Budgetary Information

The Foundation Board adopts an annual budget. The 2016 budget included an increase for the Designated Users Fund assessment but not the Montgomery Village Foundation Fund assessment. The Designated Users Fund increase was \$1.25 per unit, per month.

The 2016 budget provided funds for a 2% general salary increase and a contribution to reserves of \$1,025,212. The 2016 operating and reserve budgets continued funding for successful programs such as the farmers market, expanded lawn theater series, dive-in movie nights, Great Pumpkin Race/Fall Festival, Senior in Action! and included over \$50,000 to be used for numerous 50th Anniversary celebration events.

The following table summarizes the Revenues and Expenses of the Operating Fund of the Foundation for the year ended December 31, 2016 as compared to the adopted budget and 2015 comparative totals.

Statement of Revenues and Expenses - Operating Fund – Budget and prior year vs 2016 results

	For the year ended December 31, 2016	2016 Adopted Budget	For the year ended December 31, 2015
Revenue:			
Assessments	6,050,573	6,050,573	5,929,027
Assessment collection fees	213,876	253,509	254,890
Management fee income	790,805	782,500	826,254
Classes/other recreational programs	384,151	309,500	342,203
Advertising income	144,553	150,000	154,436
Investment income	9,516	3,000	2,830
Capital contribution fee	161,489	108,150	136,503
Other income	359,696	302,451	325,625
Total Revenues	8,114,659	7,959,683	7,971,768
Expenses:			
Personnel and benefits	4,465,898	4,560,379	4,385,457
Business Expenses	188,497	246,110	164,450
Office Supplies	47,798	51,975	50,681
Program/maintenance supplies	126,832	121,550	116,384
Occupancy	287,073	336,082	306,644
Office expenses/service contracts	248,833	303,718	290,550
Equipment maintenance	22,837	33,920	25,939
Vehicle expenses	20,014	25,505	19,792
Financial & legal	116,403	130,085	151,821
Bad debt expense	105,000	85,800	158,000
Insurance	114,341	118,259	113,452
Printing	72,999	91,075	88,261
Landscape & maintenance	730,902	793,255	675,931
Other expenses	107,131	151,590	131,694
Total Expenses	6,654,558	7,049,303	6,679,058
Income before Interfund transfers	1,460,101	910,380	1,292,710
Interfund transfers:			
Invested in property and equipment	101,948	124,200	(48,830)
Contributions to reserves	1,025,212	1,025,212	987,050
Capital contribution fee	161,654	108,150	136,503
Total interfund transfers	1,288,814	1,257,562	1,074,723
Change in Net Assets	171,287	(347,182)	217,987

With the above results, the December 31, 2016 net asset balances of the five Operating funds are (page 28):

	Operating	Reserve
Montgomery Village Foundation Fund	\$ 790,282	\$ 2,937,586
User Fee Fund	372,195	
Designated Users Fund	378,310	2,492,779
Community Management Fund	125,296	
Poplar Spring Fund	(199)	
Total Fund Balances, 12/31/16	\$1,665,884	\$ 5,430,365

Statement of Revenues and Expenses - Operating Fund – Variances versus Budget

Assessment Collection Fees – The unfavorable variance versus the budget and prior year was primarily due to the timing of the 2016 budget and the lack of trend information in 2016 to fully understand the 2014 Collection Policy's impact on this revenue source. For 2016's budget, assessment collection revenue was reduced nearly \$40,000 from the 2015 budget.

Classes & other recreation programs – The favorable variance was due to the budgeted revenue reduction in the camp & class programs as MVF looked to restructure programs based on the prior 3 years decreases in summer camp enrollments. With the help of some new programs and implementation of specialty camps, revenues were down from prior budgets, but exceeded the lowered expectation.

Capital Contribution Fee – The favorable revenue variance was due to a continued increase in home sales in 2016 as favorable market conditions and low interest rates fueled home sales.

Business Expenses – The favorable variance is primarily due to lower than expected costs related to the 50th anniversary celebration events as well as lower staff training expenses.

Occupancy Expenses – The favorable variance was led by savings from the 1st full year with solar panels installed at the Lake Marion Community Center. The budgeted savings were conservative given the variability of weather conditions over the course of a year and the lack of any relevant experience with a new form of power generation.

Office Expenses – The favorable variance is primarily due to lower technology and support costs which included the delayed implementation of the Smartwebs mobile violation software for Community Management and Architectural Standards departments. Additionally, a \$13,512 credit for the 2015 underutilization of support hours was accrued against technology costs in 2016.

Landscape & maintenance – The favorable variance in maintenance and landscaping is primarily due to lower than expected outsourced maintenance support related to MVF planned events such as July 4th and the Fall Festival. Additionally, lower costs were incurred in billable tree/shrub maintenance and tot lot maintenance but these were partially offset by higher snow removal costs from the early 2016 historic snow storm as well as higher than expected costs from general repairs and waterway maintenance.

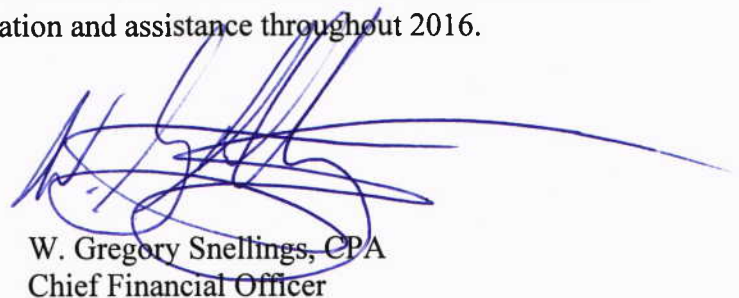
Other Expenses – The favorable variance is due to the change in security service vendors and a significant reduction in the contract fees included in the agreement.

We wish to extend a thank you to our auditors, Michele Mills, Betsy Boddicker & Adelaide White, of Draper & McGinley for returning to perform another successful audit. Also thanks to the MVF Audit Committee and MVF Board of Directors for their participation and assistance throughout 2016.

Respectfully submitted,



David B. Humpton
Executive Vice President



W. Gregory Snellings, CPA
Chief Financial Officer



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Montgomery Village Foundation, Inc.

We have audited the accompanying financial statements of Montgomery Village Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016 and the related statements of activities and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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 Montgomery Village Foundation, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Montgomery Village Foundation, Inc. as of December 31, 2015, were audited by other auditors whose report dated March 21, 2016, expressed an unmodified opinion on those statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of 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.

Frederick, Maryland
March 7, 2017

Drapen & McGinley, P.A.

MONTGOMERY VILLAGE FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION

December 31,	2016	2015
Assets		
Cash and cash equivalents (see note 3)	\$ 2,130,323	\$ 2,062,175
Investments (see note 4)	5,802,736	5,549,588
Accounts receivable, net (see note 6)	631,766	710,174
Prepaid expenses	62,333	34,380
Property and equipment, net (see note 8)	<u>7,383,780</u>	<u>6,447,898</u>
Total Assets	<u>\$ 16,010,938</u>	<u>\$ 14,804,215</u>
 Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 459,568	\$ 212,757
Accrued salaries and benefits	175,265	134,356
Sunstream capital lease (see note 15)	122,088	127,283
Due to homes corporations	116,044	106,154
Deferred revenue (see note 7)	<u>485,133</u>	<u>489,178</u>
Total Liabilities	1,358,098	1,069,728
 Net Assets (see note 2)		
Unrestricted	8,927,576	7,814,376
Board designated - reserve funds	<u>5,721,500</u>	<u>5,915,511</u>
	14,649,076	13,729,887
Temporarily restricted	<u>3,764</u>	<u>4,600</u>
Total Net Assets	<u>14,652,840</u>	<u>13,734,487</u>
Total Liabilities and Net Assets	<u>\$ 16,010,938</u>	<u>\$ 14,804,215</u>

The accompanying notes are an integral part of these statements.

MONTGOMERY VILLAGE FOUNDATION, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended December 31,	2016	2015
Unrestricted Revenues and Other Support		
Assessments	\$ 6,050,573	\$ 5,929,027
Management fee income	790,805	826,254
Classes and other recreational programs	257,180	242,095
Pool memberships/rental fees	126,971	100,108
Advertising income	144,553	154,436
Investment income	151,928	113,716
Assessment collection fees	213,876	254,890
Capital contribution fee	161,489	136,503
Disclosure fees	168,180	144,538
Transfer fees	40,500	36,675
Other income	151,016	269,412
Total Unrestricted Revenues and Other Support	8,257,071	8,207,654
Net assets released from restriction	836	634
Total Unrestricted Revenues and Other Support and reclassifications	8,257,907	8,208,288
Expenses		
Personnel and benefits	4,465,898	4,385,457
Business expenses	189,897	164,450
Office supplies	47,798	50,681
Program/maintenance supplies	126,832	116,384
Occupancy	287,073	306,644
Office expenses/service contracts	248,833	290,550
Equipment maintenance	36,912	30,610
Vehicle expenses	20,014	19,792
Financial and legal	152,912	188,324
Bad debt expense	105,000	158,000
Insurance	114,341	113,452
Printing	72,999	88,260
Landscape and maintenance	939,916	816,174
Depreciation and amortization	571,984	535,259
Other	107,131	131,695
Total Expenses	7,487,540	7,395,732
Change in Unrestricted Net Assets Before Other Items	770,367	812,556
Other Items		
Loss on disposal of fixed assets	(1,197)	-
Realized/Unrealized gain(loss) on investments	150,019	(93,250)
Total Other Items	148,822	(93,250)
Change in Unrestricted Net Assets	919,189	719,306
Temporarily Restricted Net Assets		
Released from restriction	(836)	(634)
Change in Temporarily Restricted Net Assets	(836)	(634)
Change in Net Assets	918,353	718,672
Net Assets, beginning of year	13,734,487	13,015,815
Net Assets, end of year	\$ 14,652,840	\$ 13,734,487

The accompanying notes are an integral part of these statements.

MONTGOMERY VILLAGE FOUNDATION, INC.
STATEMENTS OF CASH FLOWS

For the years ended December 31,	2016	2015
Cash Flows from Operating Activities:		
Change in net assets	\$ 918,353	\$ 718,672
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization expense	571,984	535,259
Loss on disposal of fixed assets	1,197	-
Provision for uncollectible accounts	(66,860)	(50,548)
Realized/Unrealized (gain) loss on investments	(150,019)	93,250
Change in operating assets and liabilities:		
Accounts receivable	145,268	147,584
Prepaid expenses	(27,953)	(3,676)
Accounts payable	246,811	(80,809)
Due to homes corporations	9,890	2,959
Deferred revenue	(4,045)	46,061
Accrued salaries and benefits	40,909	16,188
	<u>1,685,535</u>	<u>1,424,940</u>
Net cash provided by operating activities	<u>1,685,535</u>	<u>1,424,940</u>
Cash Flows from Investing Activities:		
Proceeds from sale of investments	3,486,755	3,031,386
Purchase of investments	(3,589,884)	(3,532,325)
Construction in progress - current year	(1,391,827)	(176,799)
Disposal of equipment	8,490	443,415
Purchase of property and equipment	(125,726)	(1,125,079)
	<u>(1,612,192)</u>	<u>(1,359,402)</u>
Net cash used in investing activities	<u>(1,612,192)</u>	<u>(1,359,402)</u>
Cash Flows from Financing Activities:		
Payments on capital lease	(5,195)	(2,032)
	<u>(5,195)</u>	<u>(2,032)</u>
Net cash used in financing activities	<u>(5,195)</u>	<u>(2,032)</u>
Increase in cash and cash equivalents	68,148	63,506
Cash and cash equivalents, beginning of year	<u>2,062,175</u>	<u>1,998,669</u>
Cash and cash equivalents, end of year	<u>\$ 2,130,323</u>	<u>\$ 2,062,175</u>
Supplemental Information:		
Cash paid for interest	\$ 8,494	\$ 2,967
Cash paid for taxes	<u>\$ -</u>	<u>\$ -</u>
Noncash financing transactions:		
Capital lease for solar panels	\$ -	\$ 129,881
Lease payable	<u>-</u>	<u>(129,881)</u>
Cash payment for solar panels	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.