



Montgomery Village Foundation, Inc.

**Financial Statements, Supplementary Information, and
Independent Auditors' Reports**

For the Years Ended December 31, 2017 and 2016

Montgomery Village Foundation, Inc.
For the Years Ended December 31, 2017 and 2016

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MONTGOMERY VILLAGE FOUNDATION, INC

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March 2, 2018

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, 2017. 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 \$15,667,526 as of December 31, 2017, an increase of \$1,014,686 over December 31, 2016. Since 2007, net assets have increased a total of \$8,287,725 as a result of many cost saving and organizational initiatives which has helped to fund significant infrastructure improvements including 2 pools and the South Valley Park buildings. (page 8)
- The change in net assets (i.e. net income) for 2017 was an increase of \$1,014,686 compared to an increase in 2016 of \$918,353. Additionally, Operating Fund net assets were \$1,676,216, an increase of \$6,568 vs. an increase of \$171,287 in 2016. The increase in 2017 exceeded budget expectations by \$326,904 but the MVF Fund, which expected to use \$343,698 of its undesignated reserve surplus only used \$74,859. (page 9, 25)
- As of December 31, 2017, the Foundation reported unrestricted net assets of \$10,034,535 (Operating Fund \$1,663,041 and Fixed Asset Fund \$8,371,494), temporarily restricted net assets of \$13,175 and Board designated net assets of \$5,204,514 for reserve replacements and \$415,302 for Capital Contribution Fee projects. (page 25)
- The Foundation’s cash and cash equivalents as of December 31, 2017 were \$1,350,855 and investments \$6,271,767. (page 8)
- The Foundation’s assessments receivable decreased \$65,261 in 2017 without any additional bad debt expense for the first time since 2006. The net realizable value is now \$625,434 vs. \$631,766 in 2016. With 3 full years under the 2014 revised Collection Policy, Foundation staff continued to make progress by decreasing the outstanding delinquencies over \$225,000 since the change and lowering the delinquency rate to 7.5% from 8.0% in 2016. (page 19, note 6)
- During 2017 the MVF Board of Directors, at the recommendation of the Investment committee and its advisor, Wilmington Trust, approved a change to the Investment Policy Statement increasing the Equity allocation to a maximum of 45% while decreasing the allocation of Fixed Income proportionately. The change allows for the existing equity investments to continue to appreciate as well as to give MVF the ability to take advantage of attractive valuations in the equity markets.

- During 2017, MVF’s reserve investment portfolio again exceeded expectations by returning 5.9% vs. 2016’s 4.4% performance (both net of advisory fees). MVF’s annual reserve plan projected 3.75% and the benchmark expectation returned 6.2%. Equity securities led the way with an average 17.7% (13.8% 2016 and 23.8% benchmark) with an allocation of 32% of the \$6.2M portfolio. (page 29)
- Capital Contribution fees received through December 31, 2017 were \$191,089 as compared to \$161,489 in 2016. The 29,600 increase is primarily due to the sale of the Walker House Apartment complex which garnered \$32,200. The amount vastly exceeded the \$120,000 budget expectation. (page 9)
- The 2017 contribution to reserves were \$1,089,959. 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. (page 22, note 10)
- Capital expenditures for the year ended 2017 totaled \$1,726,883 vs. \$1,514,258 in 2016 and a 2017 budget of \$455,902. 2017 actual capital expenses included (page 26):

	MVF	DU	TOTAL
○ Computer/IT, phone, office equipment	\$ 29,368		
○ Lake Whetstone play area	47,494		
○ Tot lots and other park improvements	92,306		
○ Other	15,756	5,196	
○ Apple Ridge pool renovation		\$1,426,388	
○ Pool equipment replacements		41,209	
○ Community Center replacements		69,166	
	\$184,924	\$1,541,959	\$1,726,883

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 2017 budget included a \$1.40 increase for the Designated Users Fund assessment as well as a \$.25 increase in the Montgomery Village Foundation Fund assessment.

The 2017 budget provided funds for a 2% general salary increase and a contribution to reserves of \$1,089,959. The 2017 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, and Seniors in Action!

The following table summarizes the Revenues and Expenses of the Operating Fund of the Foundation for the year ended December 31, 2017 as compared to the adopted budget and 2016 comparative totals.

Statement of Revenues and Expenses - Operating Fund – Budget and prior year vs 2017 results

	For the year ended December 31, 2017	2017 Adopted Budget	For the year ended December 31, 2016
Revenue:			
Assessments	6,219,391	6,219,015	6,050,573
Assessment collection fees	202,466	216,250	213,876
Management fee income	794,258	791,204	790,805
Classes/other recreational programs	381,028	335,642	384,151
Advertising income	109,640	150,000	144,553
Investment income	3,492	4,312	9,516
Capital contribution fee	191,089	120,000	161,489
Other income	372,625	318,500	359,696
Total Revenues	8,273,989	8,154,923	8,114,659
Expenses:			
Personnel and benefits	4,671,885	4,753,885	4,465,898
Business Expenses	177,721	194,858	188,497
Office Supplies	31,346	47,825	47,798
Program/maintenance supplies	133,810	118,300	126,832
Occupancy	308,555	327,383	287,073
Office expenses/service contracts	376,193	329,119	248,833
Equipment maintenance	25,788	31,900	22,837
Vehicle expenses	20,318	23,200	20,014
Financial & legal	118,092	148,826	116,403
Bad debt expense	- 0 -	70,000	105,000
Insurance	120,450	117,739	114,341
Printing	78,894	94,400	72,999
Landscape & maintenance	730,170	785,700	730,902
Other expenses	85,950	112,165	107,131
Total Expenses	6,879,172	7,155,300	6,654,558
Income before Interfund transfers	1,394,817	999,623	1,460,101
Interfund transfers:			
Invested in property and equipment	107,201	110,000	101,948
Contributions to reserves	1,089,959	1,089,959	1,025,212
Capital contribution fee	191,089	120,000	161,654
Total interfund transfers	1,388,249	1,319,959	1,288,814
Change in Net Assets	6,568	(320,336)	171,287

With the above results, the December 31, 2017 net asset balances of the five Operating funds are (page 28):

	Operating	Reserve
Montgomery Village Foundation Fund	\$ 753,344	\$ 3,801,248
User Fee Fund	334,272	
Designated Users Fund	359,831	1,818,568
Community Management Fund	215,900	
Poplar Spring Fund	(306)	
Total Fund Balances, 12/31/17	\$1,663,041	\$ 5,619,816

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

Assessment Revenue – Assessment revenue increased due to the budgeted increase in both the MVF Fund and Designated Users fund assessments. The MVF Fund increased \$.25 to \$21.03 per unit per month and the Designated Users Fund increased \$1.40 to \$34.42 per unit per month.

Advertising Revenue – The unfavorable variance was due to continual loss of Village News advertisers, an overall reduction in advertisers purchasing larger more costly ad space and a general decrease in advertisements sold. This has resulted in a significant reduction in advertising revenues compared to budget and last year.

Capital Contribution Fee – The favorable revenue variance was primarily due to the sale of the Walker House apartments which generated \$32,200 in CCF revenue to MVF.

Program/Maintenance supplies – With the budgeted reduction in class/camp revenue, the budgeted program expenses were reduced accordingly. With the increase in the camp/classes revenue, actual expenses were also higher resulting in the unfavorable variance.

Occupancy Expenses – The favorable variance was led by a reduction in water usage and a higher reimbursement from Brightview Landscaping due to their increased consumption. Also, lower than anticipated natural gas costs from warmer temperatures last winter added to the savings.

Office Expenses/Service Contracts – As part of the year-end closing process, an accrual for the estimated \$60,000 cost of the homeowner records scanning project was included and led to the unfavorable variance. The project was approved by the Board at the October 2017 meeting.

Finance & Legal – With the Collection team’s successes in lowering VF’s delinquency rate to levels not seen since 2007, legal collection costs are much lower than expected. The assessment collection rate continues to fall, dropping from a high of 11% to 7.5% at the end of 2017.

Bad Debt Expense – The favorable decrease is due to \$0 expense in 2017. After review of the year-end assessment receivables balance, management deemed the receivables balance approximated its net realizable value without the need for any additional bad debt reserves.

Landscape & maintenance – The favorable variance in maintenance and landscaping is primarily due to lower than expected snow removal due to the warmer than expected winter in 2017. Other savings came from incurring less than expected spending on ballfield maintenance and park furnishings.

We wish to extend a thank you to our auditors, Michele Mills, Adelaide Blickenstaff & Tim Connole of Deleon & Stang 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 2017.

Respectfully submitted,



David B. Humpton
Executive Vice President



W. Gregory Snellings, CPA
Chief Financial Officer



INDEPENDENT AUDITORS' REPORT

Board of Directors Montgomery Village Foundation, Inc. Gaithersburg, Maryland

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, 2017 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.

Montgomery Village Foundation, Inc.
Independent Auditors' Report
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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, 2017, 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, 2016, were audited by other auditors whose report dated March 7, 2017, 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.

DeLeon & Stang

DeLeon and Stang, CPAs and Advisors
Frederick, Maryland
March 22, 2018

MONTGOMERY VILLAGE FOUNDATION, INC.
Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents (see note 3)	\$ 1,350,855	\$ 2,130,323
Investments (see note 4)	6,271,767	5,802,736
Accounts receivable, net (see note 6)	625,434	631,766
Prepaid expenses	26,931	62,333
Property and equipment, net (see note 8)	8,488,387	7,383,780
Total Assets	\$ 16,763,374	\$ 16,010,938
 Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 151,699	\$ 459,568
Accrued salaries and benefits	162,590	175,265
Sunstream capital lease (see note 15)	116,893	122,088
Due to homes corporations	132,462	116,044
Deferred revenue (see note 7)	532,204	485,133
Total Liabilities	1,095,848	1,358,098
 Net Assets (see note 2)		
Unrestricted	10,034,535	8,927,576
Board designated - reserve funds	5,619,816	5,721,500
	15,654,351	14,649,076
Temporarily restricted	13,175	3,764
Total Net Assets	15,667,526	14,652,840
Total Liabilities and Net Assets	\$ 16,763,374	\$ 16,010,938

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, 2017 and 2016

	2017	2016
Assessments	\$ 6,219,391	\$ 6,050,573
Management fee income	794,258	790,805
Classes and other recreational programs	263,270	257,180
Pool memberships/rental fees	117,758	126,971
Advertising income	109,640	144,553
Investment income	158,131	151,928
Assessment collection fees	202,466	213,876
Capital contribution fee	191,089	161,489
Disclosure fees	143,719	168,180
Transfer fees	39,825	40,500
Other income	179,081	151,016
Total Unrestricted Revenues and Other Support	8,418,628	8,257,071
Net assets released from restriction	589	836
Total Unrestricted Revenues and Other Support and reclassifications	8,419,217	8,257,907
Personnel and benefits	4,671,885	4,465,898
Business expenses	177,721	189,897
Office supplies	31,346	47,798
Program/maintenance supplies	133,810	126,832
Occupancy	308,555	287,073
Office expenses/service contracts	381,184	248,833
Equipment maintenance	78,536	36,912
Vehicle expenses	20,318	20,014
Financial and legal	154,876	152,912
Bad debt expense	-	105,000
Insurance	120,450	114,341
Printing	78,894	72,999
Landscape and maintenance	794,006	939,916
Depreciation and amortization	617,081	571,984
Other	85,950	107,131
Total Expenses	7,654,612	7,487,540
Change in Unrestricted Net Assets Before Other Items	764,605	770,367
Other Items		
Loss on disposal of fixed assets	-	(1,197)
Realized/unrealized gain on investments	240,670	150,019
Total Other Items	240,670	148,822
Change in Unrestricted Net Assets	1,005,275	919,189
Temporarily Restricted Net Assets		
Restricted donations	10,000	-
Released from restriction	(589)	(836)
Change in Temporarily Restricted Net Assets	9,411	(836)
Change in Net Assets	1,014,686	918,353
Net Assets, beginning of year	14,652,840	13,734,487
Net Assets, end of year	\$ 15,667,526	\$ 14,652,840

The accompanying notes are an integral part of these statements.

MONTGOMERY VILLAGE FOUNDATION, INC.
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Change in net assets	\$ 1,014,686	\$ 918,353
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization expense	617,081	571,984
Loss on disposal of fixed assets	-	1,197
Provision for uncollectible accounts	-	(66,860)
Realized/unrealized (gain) on investments	(240,670)	(150,019)
Change in operating assets and liabilities:		
Accounts receivable	6,332	145,268
Prepaid expenses	35,402	(27,953)
Accounts payable	(307,869)	246,811
Due to homes corporations	16,418	9,890
Deferred revenue	47,071	(4,045)
Accrued salaries and benefits	(12,675)	40,909
	1,175,776	1,685,535
Cash Flows from Investing Activities:		
Proceeds from sale of investments	1,477,558	3,486,755
Purchase of investments	(1,705,919)	(3,589,884)
Construction in progress - current year	(1,584,542)	(1,383,337)
Purchase of property and equipment	(137,146)	(125,726)
	(1,950,049)	(1,612,192)
Cash Flows from Financing Activities:		
Payments on capital lease	(5,195)	(5,195)
	(5,195)	(5,195)
Increase (decrease) in cash and cash equivalents	(779,468)	68,148
Cash and cash equivalents, beginning of year	2,130,323	2,062,175
Cash and cash equivalents, end of year	\$ 1,350,855	\$ 2,130,323
Supplemental Information:		
Cash paid for interest	\$ 12,867	\$ 8,494
Cash paid for taxes	\$ -	\$ -

The accompanying notes are an integral part of these statements.

MONTGOMERY VILLAGE FOUNDATION, INC.
Notes to the Financial Statements
December 31, 2017 and 2016

NOTE 1- NATURE OF OPERATIONS

Montgomery Village Foundation, Inc. (the Foundation), a non-profit membership corporation, was formed for the preservation, protection, and enhancement of the values and amenities in Montgomery Village, a planned community. The Foundation has been delegated and assigned the powers of owning, maintaining, and administering the common properties and facilities, administering and enforcing the covenants and restrictions, and collecting and disbursing the assessments and charges created by covenants. Membership in the Foundation is automatic with the purchase of a dwelling unit in Montgomery Village.

The Foundation is governed by a nine-member Board of Directors who are elected by the members of the Foundation.

Montgomery Village consists of 12,099 residential units located on approximately 2,500 acres in Montgomery County, Maryland. The 12,099 residential units are comprised of 8,480 single family/townhomes, 1,428 rental apartment units and 2,191 condominium units.

The financial structure of the Foundation consists of three 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), which includes the capital contribution fund effective January 1, 2012. Of these, it is the Operating Fund which administers the primary activities within five funds. The five operating funds 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 Users Facilities 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 the 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 Programs Fund

This Fund provides recreation activities for a fee.

MONTGOMERY VILLAGE FOUNDATION, INC.

Notes to the Financial Statements

December 31, 2017 and 2016

NOTE 1- NATURE OF OPERATIONS (Continued)

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 users of this function.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements are prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities. All expenses are charged first to a designated cost center and then are allocated to the designated fund specified in the cost allocation program.

Financial statement presentation

The financial statement presentation follows Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 958-210. Under FASB's ASC 958-210, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets – net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation. Undesignated net assets represent the funds that are available to support the Foundation's general operations. Board-designated net assets represent the funds that the Foundation's Board of Directors has determined should be reserved for long-term investment purposes. The Board has the right to approve expenditures from these reserved funds at any time. The Board-designated net assets include the reserve fund balance at December 31, 2017 and 2016.

Temporarily Restricted Net Assets – net assets subject to donor imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. For the years ended December 31, 2017 and 2016, there were \$13,175 and \$3,764 of temporarily restricted net assets, respectively.

Permanently Restricted Net Assets – net assets subject to donor imposed stipulations that they be maintained permanently by the Foundation to use all or part of the income earned on any related investments for general or specific purposes. Montgomery Village Foundation currently does not have any permanently restricted net assets.

MONTGOMERY VILLAGE FOUNDATION, INC.

Notes to the Financial Statements

December 31, 2017 and 2016

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

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

Cash and cash equivalents

The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts receivable

Accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of accounts. Balances are written off through a charge to the valuation allowance and a credit to accounts receivable when the homeowner is discharged via federal bankruptcy or the home is foreclosed and the former homeowner is no longer serviceable through the Foundation's normal collection efforts. The allowance account as of December 31, 2017 and 2016 was \$161,499 and \$205,592, respectively. Bad debt expense for the years ended December 31, 2017 and 2016 was \$0 and \$105,000, respectively. Write offs for the years ended December 31, 2017 and 2016 were \$60,941 and \$174,819, respectively.

Foundation members are subject to quarterly assessments to provide funds for the Foundation's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments are billed at the beginning of each quarter. Any amounts outstanding as of the next billing cycle are considered delinquent.

Investments

The Foundation follows FASB ASC 958-320. Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Investment balances are subject to market fluctuations and credit risks. Therefore, the investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value in subsequent periods.

MONTGOMERY VILLAGE FOUNDATION, INC.

Notes to the Financial Statements

December 31, 2017 and 2016

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment

Property and equipment are recorded at cost or, if donated, at the estimated fair market value upon receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The Foundation capitalizes real or personal property that has an acquisition cost equal to or greater than \$5,000, increased from \$1,000 effective October 26, 2017. Purchases less than the capitalization threshold are expensed in the year of acquisition.

Depreciation and amortization expense for the years ended December 31, 2017 and 2016 was \$617,081 and \$571,984, respectively.

Deferred revenue

Deferred revenue represents class fees, assessments and advertising revenue collected in advance.

Investment income

Investment income earned by the reserve fund investments is allocated monthly to the funds which require reserve funds – Montgomery Village Fund and Designated Users Facility Fund – based on the average fund balances. Investment income is neither allocated, nor charged, to negative balances.

Income taxes

The Foundation is a non-stock, non-profit organization which holds tax-exempt status under Section 501(c)(4) of the Internal Revenue Code. Pursuant to the regulations issued for 501(c)(4) tax exempt organizations, the Foundation must primarily engage in promoting, in some way, the common good and general welfare of the people in the community.

The Foundation is subject to taxation on unrelated business income activities. There were no tax liabilities on these income activities in 2017 or 2016.

The Foundation has adopted FASB ASC 740-10 and Accounting Standards Update (ASU) 2009-06. As part of those adoptions, the Foundation considered the possibility of uncertain tax positions and their impact on the financial position of the Foundation. The most significant tax positions of the Foundation are its tax-exempt status and the determination of unrelated business taxable income. As of December 31, 2017 and 2016, management did not identify any uncertain tax positions.

MONTGOMERY VILLAGE FOUNDATION, INC.**Notes to the Financial Statements****December 31, 2017 and 2016****NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Foundation accrues interest and penalties (if applicable) in income taxes payable on the Statement of Financial Position and records any expense in the provision for income taxes in the Statements of Activities and Changes in Net Assets. The Foundation had no penalties or income taxes for the years ended December 31, 2017 and 2016. Pursuant to Internal Revenue Service rules for the statute of limitations, the Foundation believes it is no longer subject to U.S. Federal, state, and local income tax examinations by taxing authorities for years before 2014.

NOTE 3- CASH AND CASH EQUIVALENTS

The following is a schedule of cash and money market balances at December 31, 2017 and 2016:

	2017	Interest	2016	Interest
	Balance	Rate	Balance	Rate
Petty cash	\$ 650	-	\$ 650	-
Checking:				
M&T	119,604	-	116,275	-
Community Association Banc	<u>426,857</u>	-	<u>464,081</u>	-
	546,461		580,356	
Money market and savings accounts:				
Bank of Charles Town	395,407	0.90%	246,848	0.65%
Bank of Charles Town	297,115	0.90%	893,624	0.65%
Bank of Charles Town	<u>1</u>	0.90%	<u>181,787</u>	0.65%
	692,523		1,322,259	
Deposits in brokerage account:				
Wilmington Trust	<u>111,221</u>	-	<u>227,058</u>	-
Total cash and cash equivalents	<u>\$ 1,350,855</u>		<u>\$ 2,130,323</u>	

MONTGOMERY VILLAGE FOUNDATION, INC.
Notes to the Financial Statements
December 31, 2017 and 2016

NOTE 4- INVESTMENTS

The following is a summary of the investments at December 31, 2017:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gain/(Loss)</u>
Certificates of Deposit	\$ 350,000	\$ 357,164	\$ 7,164
Treasury Securities & Federal Agencies	2,003,288	1,979,366	(23,922)
Corporate Grade Bonds	1,756,428	1,751,201	(5,227)
Inflation Hedges	174,623	177,840	3,217
Equities	<u>1,638,276</u>	<u>2,006,196</u>	<u>367,920</u>
	<u>\$ 5,922,615</u>	<u>\$ 6,271,767</u>	<u>\$ 349,152</u>

The following is a summary of the maturities of the investments at December 31, 2017:

	<u>Treasury Securities & Federal Agencies</u>	<u>Certificates of Deposit</u>	<u>Corporate Grade Bonds</u>	<u>Equities & Inflation Hedges</u>	<u>Total</u>
n/a	\$ -	\$ -	\$ -	\$ 2,184,036	\$ 2,184,036
2018	358,824	151,130	60,061	-	570,015
2019	158,927	102,715	283,270	-	544,912
2020	314,555	103,319	330,606	-	748,480
2021	270,444	-	202,791	-	473,235
2022	256,661	-	276,004	-	532,665
Thereafter	<u>619,955</u>	<u>-</u>	<u>598,469</u>	<u>-</u>	<u>1,218,424</u>
Total	<u>\$ 1,979,366</u>	<u>\$ 357,164</u>	<u>\$ 1,751,201</u>	<u>\$ 2,184,036</u>	<u>\$ 6,271,767</u>

The current yield to maturity on the Treasury securities and Federal agencies at December 31, 2017 range from 1.16% to 2.41% while the current yield to maturity on the certificates of deposit range from 1.52% to 1.80%.

MONTGOMERY VILLAGE FOUNDATION, INC.
Notes to the Financial Statements
December 31, 2017 and 2016

NOTE 4- INVESTMENTS (Continued)

The following is a summary of the investments at December 31, 2016:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gain/(Loss)</u>
Certificates of Deposit	\$ 350,000	\$ 365,237	\$ 15,237
Treasury Securities & Federal Agencies	1,972,535	1,954,135	(18,400)
Corporate Grade Bonds	1,567,452	1,549,875	(17,577)
Inflation Hedges	174,623	175,400	777
Equities	<u>1,610,252</u>	<u>1,758,089</u>	<u>147,837</u>
	<u>\$ 5,674,862</u>	<u>\$ 5,802,736</u>	<u>\$ 127,874</u>

The following is a summary of the maturities of the investments at December 31, 2016:

	<u>Treasury Securities & Federal Agencies</u>	<u>Certificates of Deposit</u>	<u>Corporate Grade Bonds</u>	<u>Equities & Inflation Hedges</u>	<u>Total</u>
n/a	\$ -	\$ -	\$ -	\$ 1,933,489	\$ 1,933,489
2017	-	-	20,029	-	20,029
2018	590,410	153,344	320,675	-	1,064,429
2019	145,269	105,703	387,717	-	638,689
2020	382,800	106,190	80,380	-	569,370
2021	222,887	-	259,610	-	482,497
Thereafter	<u>612,769</u>	<u>-</u>	<u>481,464</u>	<u>-</u>	<u>1,094,233</u>
Total	<u>\$ 1,954,135</u>	<u>\$ 365,237</u>	<u>\$ 1,549,875</u>	<u>\$ 1,933,489</u>	<u>\$ 5,802,736</u>

The current yield to maturity on the Treasury securities and Federal agencies at December 31, 2016 range from 0.92% to 2.49% while the current yield to maturity on the certificates of deposit range from 1.00% to 1.15%.

NOTE 5- FAIR VALUES

FASB ASC 820-10 establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The input levels used for valuing the assets and liabilities are not necessarily an indication of risk. The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

MONTGOMERY VILLAGE FOUNDATION, INC.
Notes to the Financial Statements
December 31, 2017 and 2016

NOTE 5- FAIR VALUES (Continued)

- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means;
- If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Equities and Inflation Hedges – identical assets valued at the closing price reported on the active market on which the individual securities are traded.

Certificates of Deposit, Treasury Securities, Federal Agencies, and Corporate Grade Bonds – similar assets valued at the closing price reported on the active market on which the individual securities are traded.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

MONTGOMERY VILLAGE FOUNDATION, INC.
Notes to the Financial Statements
December 31, 2017 and 2016

NOTE 5- FAIR VALUES (Continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market and Savings Accounts	\$ 692,523	\$ -	\$ -	\$ 692,523
Certificates of Deposit	-	357,164	-	357,164
Treasury Securities	-	303,766	-	303,766
Federal Agencies	-	1,675,600	-	1,675,600
Equities & Inflation Hedges	2,184,036	-	-	2,184,036
Corporate Grade Bonds	-	1,751,201	-	1,751,201
	<u>\$2,876,559</u>	<u>\$4,087,731</u>	<u>\$ -</u>	<u>\$6,964,290</u>

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market and Savings Accounts	\$ 1,322,259	\$ -	\$ -	\$ 1,322,259
Certificates of Deposit	-	365,237	-	365,237
Treasury Securities	-	370,578	-	370,578
Federal Agencies	-	1,583,557	-	1,583,557
Equities & Inflation Hedges	1,933,489	-	-	1,933,489
Corporate Grade Bonds	-	1,549,875	-	1,549,875
	<u>\$3,255,748</u>	<u>\$3,869,247</u>	<u>\$ -</u>	<u>\$7,124,995</u>

NOTE 6- ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Assessments	\$ 680,917	\$ 746,178
Allowance for doubtful accounts	(161,499)	(205,592)
Management and maintenance fees	20,784	28,146
Accrued interest	28,072	25,519
Other	57,160	37,515
	<u>\$ 625,434</u>	<u>\$ 631,766</u>

MONTGOMERY VILLAGE FOUNDATION, INC.
Notes to the Financial Statements
December 31, 2017 and 2016

NOTE 7- DEFERRED REVENUES

Deferred revenue at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Class fees	\$ 11,986	\$ 6,249
Assessments	516,800	476,157
Advertising	<u>3,418</u>	<u>2,727</u>
	<u>\$ 532,204</u>	<u>\$ 485,133</u>

NOTE 8- PROPERTY AND EQUIPMENT, NET

Property and equipment was as follows at December 31:

	<u>Useful life</u>	<u>2017</u>	<u>2016</u>
Montgomery Village Foundation:			
Office furniture and equipment	3-15 years	\$ 944,110	\$ 924,387
Improvements - parks and lakes	5-30 years	4,112,694	3,971,325
Administrative & maintenance facility	5-50 years	<u>1,269,282</u>	<u>1,288,163</u>
		6,326,086	6,183,875
Designated Users Facilities:			
Improvements - community centers	3-30 years	1,920,277	1,843,249
Solar generation facility (capital lease)	25 years	129,881	129,881
Improvements - pools	5-30 years	6,114,722	3,619,116
Improvements - tennis courts	5-40 years	<u>452,924</u>	<u>452,924</u>
		<u>8,617,804</u>	<u>6,045,170</u>
Total property and equipment		14,943,890	12,229,045
Construction in progress		16,125	1,154,057
Less: Accumulated depreciation & amortization		<u>(6,471,628)</u>	<u>(5,999,322)</u>
Property and equipment, net		<u>\$ 8,488,387</u>	<u>\$ 7,383,780</u>

NOTE 9- DONATED ASSETS

The assets listed below were acquired from the developer, Kettler Brothers, Inc., at no cost to Montgomery Village Foundation, Inc. and are not recorded in the accompanying financial statements. The costs of operating and maintaining these assets are expensed annually. Betterments and improvements to such assets have been capitalized and are being depreciated over their respective useful lives.

MONTGOMERY VILLAGE FOUNDATION, INC.
Notes to the Financial Statements
December 31, 2017 and 2016

NOTE 9- DONATED ASSETS (Continued)

Kettler Brothers Donated Assets:

Designated Users Facility Fund – Buildings and Facilities:

North Creek Community Center and tot lot	Lake Marion Community Center and Pool
North Creek Pool	Watkins Mill Pool, bath house, and tot lot
Whetstone Pool	Apple Ridge Pool, bath house, tot lot, and
Stedwick Community Center and tot lot	basketball court
Stedwick Pool	Whetstone Community Center
William Hurly Park Pool and bath house	

Designated Users Facility Fund – Tennis Courts:

Four at Whetstone	Two at Watkins Mill
Two at Stedwick	Four at Apple Ridge
Two at Heights	Four at Ed DeSimon Park
Four at North Creek	

Montgomery Village Foundation – Land:

South Valley Park	Apple Ridge site – maint. Facility and park land
South Valley Park Lawn Theatre	Ed DeSimon Recreation Area
North Creek Lake, park and two tot lots	Lake Marion and Stream Valley
North Creek Nature Center	East Village Avenue Pipestem
William Hurley Park, basketball court, and tot lot	Patsy E. Huson Ballfield
Clubsides Park	Martin P. Roy Park
Picton tot lot	Apple Ridge Ballfield
North Creek Stream Valley Park	Milton M. Kaufmann Park
Lake Whetstone and Whetstone Run	Poplar Spring entry sign
Stream Valley	
Lake Whetstone boat house – South Dock	

Tower Corporation Donated Assets:

On May 16, 2012 Tower Corporation conveyed a deed for Out lot 1 in a subdivision known as Community Services, East Village, Montgomery Village per plat thereof recorded on August 22, 2003 in plat No 22677 among the land Records of Montgomery County Maryland. The land was conveyed as unimproved and at no cost to Montgomery Village Foundation and is therefore not included in the accompanying financial statements. The cost of operating and maintaining this land is expensed annually. Any subsequent improvements will be capitalized and depreciated over their respective lives.

Montgomery Village Foundation – Land:

CC – SAC East Village Avenue

MONTGOMERY VILLAGE FOUNDATION, INC.

Notes to the Financial Statements

December 31, 2017 and 2016

NOTE 10- BOARD DESIGNATED RESERVE FUNDS

In 1984 the Foundation's Board of Directors established a Reserve Fund for the future repair and/or replacement of its long lived assets. The inventory of reserve items includes assets with a useful life of three or more years and a total replacement cost of at least \$1,000. The Board of Directors set a goal to fund the reserves annually at 75% of the projected value of the reserve assets 30 years into the future. The projected value includes assumptions for inflation, return on investment and the annual expected expenditures and is used in determining the annual contribution requirement.

Foundation staff update the reserve inventory and assumptions on an annual basis as part of the budget process. The Board of Directors has the right to approve expenditures from these reserved funds at any time.

Contributions from the Operating Fund to the Reserve Fund and capital outlay costs from the Reserve Fund were as follows for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Contributions	\$ 1,089,959	\$ 1,025,212
Capital outlay costs	1,778,041	1,673,308

During 2011, the Foundation passed an amendment to its By-laws to charge a capital contribution fee effective January 1, 2012 upon purchase of property within Montgomery Village. The fee is set at one-tenth of one percent of the gross selling price of the property. The funds are used to fund new facilities and amenities open to the use and enjoyment of all residents and are held in the reserve fund. The total amount of fees collected and transferred to the reserve fund as of December 31, 2017 and 2016 was \$191,089 and \$161,654, respectively. Net of expenses to date, the Fund has an accumulated value of \$415,302.

NOTE 11- CREDIT RISK

The Foundation maintains cash balances at various financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation. As of December 31, 2017, the carrying amount of the Foundation's assessment checking account balance at Community Association Bank was \$283,465, leaving \$33,465 uninsured. As of December 31, 2016, the carrying amount of the Foundation's assessment checking account balance at Community Association Bank was \$258,644, leaving \$8,644 uninsured.

In addition, the Foundation has money market accounts with a brokerage firm. All balances were insured by Securities Investor Protection Corporation at December 31, 2017 and 2016.

The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

MONTGOMERY VILLAGE FOUNDATION, INC.

Notes to the Financial Statements

December 31, 2017 and 2016

NOTE 12- CONTINGENCIES AND UNCERTAINTIES

The Foundation is, from time-to-time, involved in litigation incidental to its business. The Foundation believes that the results of ongoing and other pending legal proceedings will not have a material adverse effect on the financial condition, results of operation or liquidity of the Foundation.

NOTE 13- PROGRAM SERVICES

Program service and general and administrative expenses included in the accompanying financial statements were as follows:

	<u>2017</u>	<u>2016</u>
Program Services:		
Montgomery Village Foundation Fund	\$ 1,236,921	\$ 1,176,884
Designated Users Facilities Fund	2,712,636	2,525,354
Poplar Spring Fund	2,321	2,226
User Fee Programs Fund	312,301	265,866
Community Management Fund	<u>644,414</u>	<u>684,146</u>
Total Program Service Expenses	4,908,593	4,654,476
General and Administrative Services:	<u>2,746,019</u>	<u>2,833,064</u>
Total Expenses	<u>\$ 7,654,612</u>	<u>\$ 7,487,540</u>

NOTE 14- RETIREMENT PLAN

The Foundation has adopted a 401(k) plan for the benefit of its employees. The Plan covers all employees of Montgomery Village Foundation, Inc. who are at least twenty-one years of age, excluding employees who perform duties solely in the capacity of recording secretary for the meetings of the Board of Directors and temporary employees. Eligible employees may enter the plan upon attaining the age requirement on the first day of each calendar quarter during a Plan year. Employees can contribute a portion of their compensation not to exceed the limits of the plan. The Foundation contributed \$147,100 and \$154,441 for the years ended December 31, 2017 and 2016, respectively.

NOTE 15- LEASE PAYABLE

During 2014, Montgomery Village Foundation, Inc. entered into a solar power purchase and lease agreement with Sunstream Energy LLC for the use of solar panels on the roof of the Lake Marion community center. The Foundation is financing the acquisition of the solar panels through a capital lease over the lease term of twenty five (25) years. During this term, an option to purchase the solar panels and related equipment is available at any time after the first five years from the "Operational Date" which was July 2015. The general terms of the lease include \$.11/kWh rate times the expected output per month for each year.

MONTGOMERY VILLAGE FOUNDATION, INC.

Notes to the Financial Statements

December 31, 2017 and 2016

NOTE 15- LEASE PAYABLE (Continued)

An annual reconciliation is completed to determine the under/over between the actual and expected output. The \$.11/kWh includes both the cost of the solar power generated as well as the lease portion attributable to the cost of the equipment. For the Foundation's accounting purposes, the lease portion was derived by calculating the net present value of the sum of the twenty five years of expected output payments or \$129,881. Of the monthly fee paid, \$433 represents the Foundation's investment in the solar panels asset which will reduce the lease payable each month.

The remainder of the monthly payment is recognized as solar interest expense included in the occupancy expense on the statement of activities and changes in net assets. As of December 31, 2017 and 2016, interest expense was \$12,867 and \$8,494, respectively.

The following is a schedule of the future minimum payments required under the lease as of December 31, 2017:

2018	\$	5,196
2019		5,196
2020		5,196
2021		5,196
2022		5,196
Thereafter		<u>90,913</u>
	\$	<u><u>116,893</u></u>

NOTE 16- SUBSEQUENT EVENTS

Subsequent events are defined as events or transactions that occur after the Statement of Financial Position date through the date that the financial statements are available to be issued. As of March 22, 2018, the date the financial statements were available to be issued, the Foundation performed an evaluation and determined that there are no subsequent events requiring disclosure.

MONTGOMERY VILLAGE FOUNDATION, INC.
Schedules of Financial Position - By Fund
December 31, 2017 (with comparative totals for December 31, 2016)

	<u>Operating Fund</u>	<u>Fixed Asset Fund</u>	<u>Reserve Fund</u>	<u>Total All Funds 2017</u>	<u>Total 2016</u>
Assets					
Cash and cash equivalents	\$ 844,226	\$ -	\$ 506,629	\$ 1,350,855	\$ 2,130,323
Investments	-	-	6,271,767	6,271,767	5,802,736
Accounts receivable, net	552,605	-	72,829	625,434	631,766
Prepaid Expenses	26,931	-	-	26,931	62,333
Construction in progress	-	16,125	-	16,125	1,154,057
Property and equipment	-	14,943,890	-	14,943,890	12,229,045
Less: Accumulated depreciation	-	(6,471,628)	-	(6,471,628)	(5,999,322)
Property and equipment, net	-	<u>8,488,387</u>	-	<u>8,488,387</u>	<u>7,383,780</u>
Total Assets	<u>\$ 1,423,762</u>	<u>\$ 8,488,387</u>	<u>\$ 6,851,225</u>	<u>\$ 16,763,374</u>	<u>\$ 16,010,938</u>
Liabilities and Net Assets					
Liabilities					
Interfund transactions	\$ (1,231,409)	\$ -	\$ 1,231,409	\$ -	\$ -
Accounts payable	151,699	-	-	151,699	459,568
Sunstream capital lease	-	116,893	-	116,893	122,088
Accrued salaries and benefits	162,590	-	-	162,590	175,265
Due to homes corporations	132,462	-	-	132,462	116,044
Deferred revenue	532,204	-	-	532,204	485,133
Total Liabilities	<u>(252,454)</u>	<u>116,893</u>	<u>1,231,409</u>	<u>1,095,848</u>	<u>1,358,098</u>
Net Assets					
Unrestricted	1,663,041	8,371,494	-	10,034,535	8,927,576
Board designated - reserve funds	-	-	5,204,514	5,204,514	5,430,365
Capital contribution fund	-	-	415,302	415,302	291,135
	<u>1,663,041</u>	<u>8,371,494</u>	<u>5,619,816</u>	<u>15,654,351</u>	<u>14,649,076</u>
Temporarily restricted	13,175	-	-	13,175	3,764
Total Net Assets	<u>1,676,216</u>	<u>8,371,494</u>	<u>5,619,816</u>	<u>15,667,526</u>	<u>14,652,840</u>
Total Liabilities and Net Assets	<u>\$ 1,423,762</u>	<u>\$ 8,488,387</u>	<u>\$ 6,851,225</u>	<u>\$ 16,763,374</u>	<u>\$ 16,010,938</u>

The accompanying notes are an integral part of this schedule.

MONTGOMERY VILLAGE FOUNDATION, INC.
Schedules of Revenues and Expenses - By Fund
For the Year Ended December 31, 2017 (with comparative totals for December 31, 2016)

	<u>Operating Fund</u>	<u>Fixed Asset Fund</u>	<u>Reserve Fund</u>	<u>Totals 2017</u>	<u>Total 2016</u>
Revenues					
Assessments	\$ 6,219,391	\$ -	\$ -	\$ 6,219,391	\$ 6,050,573
Management fee income	794,258	-	-	794,258	790,805
Classes and other recreational programs	263,270	-	-	263,270	257,180
Pool memberships/rental fees	117,758	-	-	117,758	126,971
Advertising income	109,640	-	-	109,640	144,553
Investment income	3,492	-	154,639	158,131	151,928
Assessment collection fees	202,466	-	-	202,466	213,876
Capital contribution fee	191,089	-	-	191,089	161,489
Disclosure fees	143,719	-	-	143,719	168,180
Transfer fees	39,825	-	-	39,825	40,500
Other income	<u>189,081</u>	<u>-</u>	<u>-</u>	<u>189,081</u>	<u>151,016</u>
Total Revenues	<u>8,273,989</u>	<u>-</u>	<u>154,639</u>	<u>8,428,628</u>	<u>8,257,071</u>
Expenses					
Personnel and benefits	4,671,885	-	-	4,671,885	4,465,898
Business expenses	177,721	-	-	177,721	189,897
Office supplies	31,346	-	-	31,346	47,798
Program/maintenance supplies	133,810	-	-	133,810	126,832
Occupancy	308,555	-	-	308,555	287,073
Office expenses/service contracts	376,193	-	4,991	381,184	248,833
Equipment maintenance	25,788	-	52,748	78,536	36,912
Vehicle expenses	20,318	-	-	20,318	20,014
Financial and legal	118,092	-	36,784	154,876	152,912
Bad debt expense	-	-	-	-	105,000
Insurance	120,450	-	-	120,450	114,341
Printing	78,894	-	-	78,894	72,999
Landscape and maintenance	730,170	-	63,836	794,006	939,916
Depreciation and amortization	-	617,081	-	617,081	571,984
Other	<u>85,950</u>	<u>-</u>	<u>-</u>	<u>85,950</u>	<u>107,131</u>
Total Expenses	<u>6,879,172</u>	<u>617,081</u>	<u>158,359</u>	<u>7,654,612</u>	<u>7,487,540</u>
Other Items					
Loss on disposal of fixed assets	-	-	-	-	(1,197)
Realized/Unrealized gain(loss) on investments	<u>-</u>	<u>-</u>	<u>240,670</u>	<u>240,670</u>	<u>150,019</u>
Total Other Items	<u>-</u>	<u>-</u>	<u>240,670</u>	<u>240,670</u>	<u>148,822</u>
Interfund Transfers: To / (From)					
Invested in property and equipment	107,201	(1,726,883)	1,619,682	-	-
Contributions to reserves	1,089,959	-	(1,089,959)	-	-
Capital Contribution	<u>191,089</u>	<u>-</u>	<u>(191,089)</u>	<u>-</u>	<u>-</u>
Total interfund transfers	<u>1,388,249</u>	<u>(1,726,883)</u>	<u>338,634</u>	<u>-</u>	<u>-</u>
Change in Net Assets	<u>\$ 6,568</u>	<u>\$ 1,109,802</u>	<u>\$ (101,684)</u>	<u>\$ 1,014,686</u>	<u>\$ 918,353</u>

The accompanying notes are an integral part of this schedule.

MONTGOMERY VILLAGE FOUNDATION, INC.
Schedules of Revenues and Expenses - Operating Fund
For the Year Ended December 31, 2017 (with comparative totals for December 31, 2016)

	Montgomery Village Foundation Fund	User Fee Programs Fund	Designated Users Facilities Fund	Poplar Spring Fund	Community Management Fund	Total Operating Fund 2017	Total 2016
Revenues							
Assessments	\$ 2,873,204	\$ -	\$ 3,343,973	\$ 2,214	\$ -	\$ 6,219,391	\$ 6,050,573
Management fee income	-	-	-	-	794,258	794,258	790,805
Classes and other recreation programs	-	263,270	-	-	-	263,270	257,180
Pool memberships/rental fees	-	-	117,758	-	-	117,758	126,971
Advertising income	109,640	-	-	-	-	109,640	144,553
Investment income	1,746	-	1,746	-	-	3,492	9,516
Assessment collection fees	97,632	-	104,834	-	-	202,466	213,876
Capital contribution fee	191,089	-	-	-	-	191,089	161,489
Disclosure fees	86,746	-	-	-	56,973	143,719	168,180
Transfer fees	38,025	-	-	-	1,800	39,825	40,500
Other income	134,881	11,109	-	-	43,091	189,081	151,016
Total Revenues	<u>3,532,963</u>	<u>274,379</u>	<u>3,568,311</u>	<u>2,214</u>	<u>896,122</u>	<u>8,273,989</u>	<u>8,114,659</u>
Expenses							
Direct expenses							
Personnel and benefits	2,908,843	167,808	989,268	-	605,966	4,671,885	4,465,898
Business expenses	99,118	61,340	10,650	-	6,613	177,721	188,497
Office supplies	29,277	-	-	-	2,069	31,346	47,798
Program/maintenance supplies	29,570	8,991	95,249	-	-	133,810	126,832
Occupancy	67,022	120	238,325	-	3,088	308,555	287,073
Office expenses/service contracts	322,995	560	36,561	1,079	14,998	376,193	248,833
Equipment maintenance	12,108	3,776	9,904	-	-	25,788	22,837
Vehicle expenses	16,064	-	4,064	-	190	20,318	20,014
Financial and legal	93,885	12,531	5,300	-	6,376	118,092	116,403
Bad debt expense	-	-	-	-	-	-	105,000
Insurance	56,646	13,131	37,653	-	13,020	120,450	114,341
Printing	78,300	-	-	-	594	78,894	72,999
Landscape and maintenance	461,730	-	267,198	1,242	-	730,170	730,902
Other	50,823	3	35,124	-	-	85,950	107,131
Total direct expenses	4,226,381	268,260	1,729,296	2,321	652,914	6,879,172	6,654,558
Allocable expenses	(1,179,987)	44,042	983,341	-	152,604	-	-
Invested in property and equipment	-	-	107,201	-	-	107,201	101,948
Contributions to reserve	323,007	-	766,952	-	-	1,089,959	1,025,212
Capital Contribution	191,089	-	-	-	-	191,089	161,654
Total Expenses	<u>3,560,490</u>	<u>312,302</u>	<u>3,586,790</u>	<u>2,321</u>	<u>805,518</u>	<u>8,267,421</u>	<u>7,943,372</u>
Change in Net Assets	<u>\$ (27,527)</u>	<u>\$ (37,923)</u>	<u>\$ (18,479)</u>	<u>\$ (107)</u>	<u>\$ 90,604</u>	<u>\$ 6,568</u>	<u>\$ 171,287</u>

The accompanying notes are an integral part of this schedule.

MONTGOMERY VILLAGE FOUNDATION, INC.
Schedule of Changes in Net Assets
For the Year Ended December 31, 2017

	Montgomery Village Foundation Fund	User Fee Fund	Capital Contribution Fund	Designated Users Facilities Fund	Poplar Spring Fund	Community Management Fund	Fixed Asset Fund	Total All Funds
Unrestricted:								
Balance, January 1, 2017	\$ 790,282	\$ 372,195	\$ -	\$ 378,310	\$ (199)	\$ 125,296	\$ 7,261,692	\$ 8,927,576
Inflows	3,522,963	274,379	-	3,568,311	2,214	896,122	1,726,883	9,990,872
Outflows	<u>(3,560,490)</u>	<u>(312,302)</u>	<u>-</u>	<u>(3,586,790)</u>	<u>(2,321)</u>	<u>(805,518)</u>	<u>(617,081)</u>	<u>(8,884,502)</u>
Change in net assets & other transfers	(37,527)	(37,923)	-	(18,479)	(107)	90,604	1,109,802	1,106,370
Net assets released from restrictions	<u>589</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>589</u>
Change in net assets & other transfers	<u>(36,938)</u>	<u>(37,923)</u>	<u>-</u>	<u>(18,479)</u>	<u>(107)</u>	<u>90,604</u>	<u>1,109,802</u>	<u>1,106,959</u>
Balance, December 31, 2017	<u>\$ 753,344</u>	<u>\$ 334,272</u>	<u>\$ -</u>	<u>\$ 359,831</u>	<u>\$ (306)</u>	<u>\$ 215,900</u>	<u>\$ 8,371,494</u>	<u>\$ 10,034,535</u>
Board Designated - Reserve Funds:								
Balance, January 1, 2017	\$ 2,937,586	\$ -	\$ 291,135	\$ 2,492,779	\$ -	\$ -	\$ -	\$ 5,721,500
Inflows	572,534	-	193,317	910,506	-	-	-	1,676,357
Outflows	<u>(124,174)</u>	<u>-</u>	<u>(69,150)</u>	<u>(1,584,717)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,778,041)</u>
Change in net assets & other transfers	<u>448,360</u>	<u>-</u>	<u>124,167</u>	<u>(674,211)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(101,684)</u>
Balance, December 31, 2017	<u>\$ 3,385,946</u>	<u>\$ -</u>	<u>\$ 415,302</u>	<u>\$ 1,818,568</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,619,816</u>

The accompanying notes are an integral part of this schedule.

MONTGOMERY VILLAGE FOUNDATION, INC.
Schedule of Investments
For the Year Ended December 31, 2017

Investment Performance

Asset Class	Benchmark Index	Investment Return	Benchmark Return
Equities	Large Cap (Standard & Poors 500 Index)	12.5%	13.7%
	Small Cap (Russell 2000 Index)	14.6%	14.6%
	International (MSCI ACWI ex USA IMI)	29.0%	27.8%
	Total	17.7%	23.8%
Fixed Income	Merrill Lynch 1-3 year Treasury	2.0%	2.1%
Inflation Hedges	Barclay's 1-5 Year Tips Index/S&P Property Index	4.2%	4.8%
Cash & Currency	Merrill Lynch 90-Day Treasury Bills Index	0.5%	0.6%
Overall Investment Performance, net of fees		5.9%	6.2%

MONTGOMERY VILLAGE FOUNDATION, INC.
Schedule of Investments
December 31, 2017

	Tax Cost	Fair Market Value
Certificates of Deposit	\$ 350,000	\$ 357,164
Treasury Securities & Federal Agencies		
Federal Agencies	276,069	303,766
United States Treasury Notes & Bonds	1,727,219	1,675,600
subtotal	<u>2,003,288</u>	<u>1,979,366</u>
Corporate Grade Bonds	<u>1,756,428</u>	<u>1,751,201</u>
Inflation Hedges		
Ishares Cohen & Steers Reit ETF	115,656	118,747
Ishares Tips Bond ETF	58,967	59,093
subtotal	<u>174,623</u>	<u>177,840</u>
Equities, by sub asset classification		
Consumer Discretionary	50,502	85,353
Consumer Staples	87,362	98,986
Energy	169,509	194,935
Equity Fund	573,006	703,503
Financials	328,191	389,519
Health Care	135,233	162,602
Industrials	76,857	102,996
Information Technology	91,192	124,238
Materials	24,687	29,566
Telecommunication Services	31,562	36,003
Utilities	70,175	78,495
subtotal	<u>1,638,276</u>	<u>2,006,196</u>
Total Investments	<u>\$5,922,615</u>	<u>\$6,271,767</u>

The accompanying notes are an integral part of this schedule.

MONTGOMERY VILLAGE FOUNDATION, INC.
Schedule of Future Major Repairs and Replacements
December 31, 2017

The Board of Directors has reviewed, approved and adopted the common property replacement analysis into their annual budget. Replacement cost amounts are determined by methods used by an architect firm specializing in such activities. A study was performed in March 2014 by DMA. Replacement costs were based on the estimated costs to repair and replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effect of inflation between the date of the study and the date that the components will require repair or replacement.

Estimated current replacement costs have been updated by Montgomery Village Foundation financial staff each year as part of the annual budget process; however, only a limited number of components included in the study are evaluated during this process. Additionally, new assets purchased and existing components that have been replaced since 2007 are also updated for current cost during the budgeting process.

The following table is based on information contained in the study concerning the components of common property. The data contained below is for informational purposes only and has not been subjected to auditing procedures:

	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs	Net Assets 1/1/2017	2017 Total Revenue	2017 Reserve Contribution	2017 Expenditures/ Transfers	Net Assets 12/31/2017
<u>Montgomery Village Foundation Fund:</u>							
Grounds		\$ 4,780,300					
Buildings		1,557,801					
Equipment		1,184,396					
Other		<u>189,941</u>					
Total Montgomery Village Foundation Fund	1 - 50	<u>7,712,438</u>	\$ 2,937,586	\$ 249,527	\$ 323,007	\$ (124,174)	\$ 3,385,946
<u>Designated User Facilities Fund:</u>							
Grounds		3,129,705					
Buildings		5,721,941					
Equipment		248,425					
Pools		11,844,725					
Other		<u>76,078</u>					
Total Designated User Facilities Fund	1 - 50	<u>21,020,874</u>	<u>2,492,779</u>	<u>143,554</u>	<u>766,952</u>	<u>(1,584,717)</u>	<u>1,818,568</u>
Totals		<u>\$ 28,733,312</u>	<u>\$ 5,430,365</u>	<u>\$ 393,081</u>	<u>\$ 1,089,959</u>	<u>\$ (1,708,891)</u>	<u>\$ 5,204,514</u>

As of December 31, 2017, the Foundation had bank and investment accounts established for the future major repairs and replacements with year end balances of \$6,382,988.

The accompanying notes are an integral part of this schedule.