

FAIRFAX STATION HOMEOWNERS HOMES ASSOCIATION, INC.
AUDITOR'S REPORT
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

FAIRFAX STATION HOMEOWNERS ASSOCIATION, INC.

Fairfax, Virginia

Established September 1978

Board of Directors and Officers

Robert Orlosky	President
Michael Bugelski	Vice President
Andrew J. Combe	Treasurer
Steven Ruehl	Secretary
Vinnie Burruano	Director-at-Large
Leah Levy	Director-at-Large

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
Fairfax Station Homeowners Association, Inc.

I have audited the accompanying financial statements of Fairfax Station Homeowners Association, Inc., which comprise the balance sheets as of December 31, 2016 and 2015 and the related statements of revenues and expenses, changes in members' equity, 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fairfax Station Homeowners Association, Inc as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 11 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Charles R. McDevitt

Annandale, Virginia
April 5, 2017

Fairfax Station Homeowners Association
Balance Sheets
At December 31, 2016 and 2015

	December 31, 2016	December 31, 2015
ASSETS		
Current assets		
Cash-operating	\$ 93,933	\$ 109,933
Cash-Pipestem account	443,787	411,862
Cash-Capital asset account	88,761	83,721
Regular assessments receivable	196	1,062
Pipestem assessments receivable	172	-
Late assessments receivable	117	596
Legal assessments receivable	415	565
Prepaid expenses	1,074	1,074
Total assets	\$ 628,455	\$ 608,813
LIABILITIES		
Prepaid regular assessments	\$ 2,484	\$ 1,604
Prepaid pipestem assessments	-	-
Accounts payable	-	1,932
Other current liabilities	428	-
Total liabilities	\$ 2,912	\$ 3,536
MEMBERS' EQUITY		
Members' Equity		
Unrestricted members' equity-operating fund	\$ 84,728	\$ 77,969
Restricted members' equity-pipestem fund	452,054	443,587
Restricted members' equity-capital asset fund	88,761	83,721
Total members' equity	\$ 625,543	\$ 605,277
Total liabilities and members' equity	\$ 628,455	\$ 608,813

See accompanying notes to financial statements.

Fairfax Station Homeowners Association, Inc.
 Statements of Revenues and Expenses
 For The Years Ended December 31, 2016 and 2015

	<u>Year Ended December 31, 2016</u>	<u>Year Ended December 31, 2015</u>
Revenues		
Regular assessments	\$104,220	\$99,360
Pipestem assessments	45,213	45,213
Late assessments	1,074	1,036
Legal assessments	490	150
Advertising income	3,032	3,289
Miscellaneous income	-	450
Interest-operating accounts	74	71
Interest-pipestem accounts	200	206
Interest-capital asset account	40	41
Total revenues	<u>\$ 154,343</u>	<u>\$ 149,816</u>
Operating Expenses		
Grounds maintenance	\$ 32,221	\$32,622
Community management services	22,287	19,922
Insurance	11,950	11,691
Pond	9,305	10,225
Accounting services	6,204	6,108
Legal	4,606	5,658
Administrative, meeting & miscellaneous	5,860	4,674
Bad debt expense	1,724	1,213
Newsletter	1,582	844
Electricity	1,392	1,519
Total operating expenses	<u>97,131</u>	<u>94,476</u>
Reserve Fund Expenditures		
Common driveways, pipestem fund	<u>36,946</u>	<u>13,488</u>
Total expenses	<u>\$ 134,077</u>	<u>\$ 107,964</u>
Excess revenues over expenses	<u><u>\$ 20,266</u></u>	<u><u>\$ 41,852</u></u>

See accompanying notes to financial statements.

Fairfax Station Homeowners' Association, Inc.
 Statements of Changes in Members Equity
 For The Years Ended December 31, 2016 and 2015

	Year Ended December 31, 2016	Year Ended December 31, 2015
	<u>2016</u>	<u>2015</u>
<u>Unrestricted members' equity</u>		
Operating fund, beginning of year	\$ 77,969	\$ 73,089
Add: Excess (deficiency) revenues over expenses	20,266	41,852
Add: Transfers from pipestem fund for pipestem expenses	36,946	13,488
Add: Transfers from capital asset fund for fund expenses	-	-
Less: Transfers to pipestem fund	(45,213)	(45,213)
Less: Transfers to capital asset fund	(5,000)	(5,000)
Less: Earned net interest allocated to pipestem fund	(200)	(206)
Less: Interest earned on capital asset fund	(40)	(41)
Operating fund, end of year	<u>\$ 84,728</u>	<u>\$ 77,969</u>
 <u>Restricted members' equity</u>		
Pipestem fund, beginning of year	\$ 443,587	\$ 411,656
Add: Contributions to pipestem fund	45,213	45,213
Add: Earned net interest allocated to pipestem fund	200	206
Less: Transfers to operating fund--pipestem expenses	(36,946)	(13,488)
Pipestem fund, end of year	<u>\$ 452,054</u>	<u>\$ 443,587</u>
 Capital asset reserve, beginning of year	\$ 83,721	\$ 78,680
Add: Contributions to capital asset fund	5,000	5,000
Add: Interest earned on capital asset fund	40	41
Less: Transfers to operating fund--capital asset expenditures	-	-
Capital asset reserve, end of year	<u>\$ 88,761</u>	<u>\$ 83,721</u>
 Total restricted members equity	<u>\$ 540,815</u>	<u>\$ 527,308</u>
 Total unrestricted and restricted members' equity	<u><u>\$ 625,543</u></u>	<u><u>\$ 605,277</u></u>

See accompanying notes to financial statements.

Fairfax Station Homeowners Association, Inc.
 Statements of Cash Flows
 For The Years Ended December 31, 2016 and 2015

	<u>Year Ended December 31, 2016</u>	<u>Year Ended December 31, 2015</u>
Cash Flows From Operating Activities		
Excess(deficit) of revenues over expenses, for the year	\$ 20,266	\$ 41,852
Adjustments to reconcile excess revenues over expenses to net cash provided by operations		
(Increase) decrease in regular assessments receivable	866	597
(Increase) decrease in pipestem assessments receivable	(172)	302
(Increase) decrease in late assessments receivable	479	(236)
(Increase) decrease in legal assessments receivable	150	530
Increase (decrease) in prepaid regular assessments	880	1,243
Increase (decrease) in prepaid pipestem assessments	-	-
Increase (decrease) in accounts payable	(1,932)	1,932
Increase (decrease) in other current liabilities	<u>428</u>	<u>-</u>
Net cash provided by operating activities	\$ 20,965	\$ 46,220
Cash and cash equivalents at beginning of year	<u>605,516</u>	<u>559,296</u>
Cash and cash equivalents at end of year	<u>\$ 626,481</u>	<u>\$ 605,516</u>
Cash and cash equivalents at end of year		
Cash-operating	\$ 93,933	\$ 109,933
Cash-Pipestem account	443,787	411,862
Cash-Capital asset account	<u>88,761</u>	<u>83,721</u>
	<u>\$ 626,481</u>	<u>\$ 605,516</u>
Supplemental Disclosure		
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

FAIRFAX STATION HOMEOWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1: ORGANIZATION

Fairfax Station Homeowners Association (FAIRFAX STATION) is a homeowners association of the 540 individual lots located in a residential community in Fairfax County, Virginia. The Association was established and incorporated in September 1978 as a non-stock corporation. In addition to holding title to his/her home, each homeowner has the right to share on equal terms in common with all other owners to the use and control of the common area of the Association. The homeowner must also pay a share of the expenses of operating and maintaining the common elements by means of a homeowner's fee assessed evenly among the homeowners. Fees for maintaining of common driveways are also assessed to certain homeowners, based on square footage of affected paved areas. The Association, which is responsible for preserving and maintaining its common property, is the entity through which these fees are collected and expenses paid.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

The financial statements of FAIRFAX STATION have been prepared on the accrual basis of accounting. Homeowner assessments are recognized as revenue in the period assessed, and expenses are recognized in the period of sale or service. The costs of making improvements or replacements, which add to the value or useful life of certain property owned by the Association, are capitalized as assets and depreciated over their estimated useful lives. (See Note 7 for a description of the Association's asset recognition policy). Ordinary repair and maintenance expenses of the Association are charged to operations in the period incurred.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3: MEMBERS' EQUITY

Members' equity consists of the balances of three separate funds maintained by the Association: an operating fund and two reserve funds. The operating fund is classified as unrestricted members' equity in the financial statements. The Board of Directors has identified land, community entrances and pond as the common elements of the Association. The Board does not foresee long-term repairs on common land and believes there is no need to set up a reserve fund for it. However, a capital management reserve fund has been established for the pond and entranceways. In addition, a reserve fund has been established for common driveways. The common driveway and capital management reserve funds, which are the only replacement reserves of the Association, are restricted for specific purposes and are classified as restricted members' equity in the financial statements. The three funds are described in detail in the following notes.

NOTE 4: OPERATING FUND

The operating fund balance is the cumulative amount that total revenues exceed total expenses of the Association, after authorized additions have been made to the reserve funds and after any transfers from reserve funds for authorized reserve expenditures. The operating fund, along with the current assessments of homeowners, funds the ordinary and necessary expenses incurred by the Association in providing the services for which it was formed. In 2016 the operating fund increased by a total of \$6,759. In 2015 the operating fund increased by a total of \$4,880. .

NOTE 5: CAPITAL ASSET RESERVE

The money in this reserve fund is for maintaining the Association's pond and entrance structures. Contributions to this account are derived from a portion of the annual assessment of all property owners in FAIRFAX STATION and interest earned on the funds of this reserve. The amount of the assessment, which is on an equal basis per lot, is proscribed by the Board of Directors. Normal maintenance of the pond and entrance structures is paid from the operating fund. Normal maintenance includes silt removal of the forbays, dam maintenance, culvert repairs, weed removal, etc. The reserve is for pond dredging and entrance structure replacement or other major repairs. When expenditure is made for which the Capital Asset Reserve was established, a transfer from the reserve is made to the operating fund from which payment is made to the provider of the authorized services.

In December 2000, an engineering study of the pond was performed to determine the need for potential dredging and other future major pond expenditures. Based on that study, the Board of Directors began to fund for the costs over the remaining useful life of this capital component. Additional studies and analysis have been performed since that time. The most recent engineering study of the pond was performed in 2016. It concluded sediment has reduced pond capacity by 19%. The expected dredge year is 2036 when sediment accumulation is estimated to be 30%. This assumes that the pond is subjected to the same conditions over time and the same maintenance regimen that it has undergone from 1981 to 2016. The estimated dredging cost in today's dollars is \$372,600 to \$400,800. The estimated dredging cost in today's dollars is \$372,600 to \$400,800. Assuming an inflation rate of one percent, the anticipated cost in 2036 would be between 450,000 and \$485,000. Assuming a three percent inflation rate, anticipated cost would be between 658,000 and \$708,000.

In May 2012, a study of the stone entrance structures was performed. The structures were determined to be in good condition and anticipated to remain in this condition for an additional 25 years or longer assuming proper maintenance.

In 2016 and 2015 the Association increased the reserve fund with owner contributions of \$5,000. Total interest earned on and allocated to the reserve for 2016 and 2015 was \$40 and \$41, respectively. Reserve contributions of \$5,000 have been included in the Association's 2017 budget, which is significantly less than the amount needed to fully fund the reserve requirement as shown in the table "Estimated Future Cost of Common Components" included in the unaudited supplementary information.

The purpose of a reserve account is to accumulate funds over time sufficient to pay for future major maintenance and/or repairs to assets. In the case of the pond, original property owners as well as all subsequent property owners should have been contributing to this Capital Asset Reserve since its construction in 1980. The Virginia Property Association Act states that an

association budget shall include a general statement describing the procedure used for the estimation and accumulation of cash reserves, and the extent to which the Association is funding its reserve obligations consistent with the study currently in effect.

If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

NOTE 6: COMMON DRIVEWAY (PIPESTEM) RESERVE

The money in this reserve fund is for the maintenance and repair of common driveways (pipestems), defined in Article VIII of the Association's Declaration of Covenants, Conditions and Restrictions. Each property owner in a subdivision of FAIRFAX STATION, which is served by a common driveway, is assessed an annual "pipestem" fee that is deposited into the escrow account. An accounting of all deposits and disbursements for each of the 66 common driveways is maintained by the Association. Interest earned on the escrow account, net of the income tax attributed to this interest, is allocated to each specific driveway in proportion to the amount contained in the fund for that specific driveway. When a repair is made to a particular common driveway, the funds related to that pipestem are used to pay for the repair. The Association's policy for payment of these expenses is to transfer funds from the pipestem reserve to the operating account from which a check is written which either reimburses homeowners for approved expenditures made or is made payable to the service provider, as requested in writing by the homeowners. In 2016 repairs totaling \$36,946 were made to seven pipestems. In 2015 repairs totaling \$13,488 were made to eight pipestems. Total interest earned on and allocated to the pipestem reserve in 2016 and 2015 was \$200 and \$206 respectively. At 12/31/16 the operating fund owed the pipestem reserve fund \$8,267, which was paid in full in April 2017. At 12/31/15 the operating fund owed the pipestem reserve fund \$31,725, which was paid in full in March 2016.

NOTE 7: ASSETS

Common real property that was transferred from the developer, including open space and green areas, has not been recognized as assets of the Association on the financial statements. Common property can be conveyed only with 2/3 membership approval and by meeting other restrictions required in the Association's declaration, articles of incorporation, and bylaws. Real property not directly associated with the Association homes will be capitalized where the Association owns the property and can dispose of it and can retain the proceeds, at the discretion of the Board of Directors. Real property that is directly associated with the homes and directly benefit unit owners, including land improvements that cannot be separated from the land, is not capitalized. Personal property, such as furnishings and maintenance equipment used in the operating, maintaining and preserving common property and providing other services, will be recognized as assets when purchased. In 2016 and 2015 no expenditures have been capitalized, in accordance with this policy.

NOTE 8: ASSESSMENTS

Regular assessments were \$193 per lot in 2016 and \$184 per lot in 2015. Pipestem assessments totaling \$45,213 in 2016 and 2015 were levied on the homeowners with common driveways. In accordance with the policy adopted by the homeowner membership, late fees of eight percent per annum are assessed to accounts delinquent at the end of each month. An additional late fee policy

was adopted in 2012, effective beginning 2013. In addition to the 8% per annum charge on delinquent accounts, accounts 30 days in arrears will be charged \$25; accounts 60 days in arrears will be charged another \$25; accounts 90 days in arrears will be charged an additional \$50. Accounts over 120 days in arrears will be referred to the Association's attorney for collection.

NOTE 9: INCOME TAXES

For income tax purposes, the FAIRFAX STATION may elect annually to file either as an exempt homeowners association or as an association taxable as a corporation. As an exempt homeowners association, the Association's net assessment income would be exempt from income tax, but its interest would be taxed. Electing to file as a corporation, the Association is taxed on its net income from all sources (to the extent not capitalized or deferred) at normal corporate rates after corporate exemption, subject to the limitation that operating expenses are deductible only to the extent of income from members. For 2016 and 2015, income taxes were calculated using the exempt method, which resulted in no tax liability for each year. In 2016 and 2015, all applicable transactions of financial accounting income and taxable income were reported in the same accounting period; therefore, there were no timing differences between accounting and taxable income

The Association implemented Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 740-10, Accounting for Uncertainty in Income Taxes. The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended December 31, 2016 and 2015, the Association did not incur any penalties and interest related to income taxes. The Association's federal and state tax returns for the past three years remain subject to examination by the Internal Revenue Service and the Commonwealth of Virginia.

NOTE 10: STATEMENT OF CASH FLOWS

The Statement of Cash Flows classifies changes in cash and cash equivalents according to operating, investing, and financing activities. FAIRFAX STATION considers all operating cash and money market funds as meeting the definition of cash equivalents. Cash and cash equivalents were \$626,481 at 12/31/16 and were \$605,516 at 12/31/15. Cash of the operating fund, pipestem fund and capital asset reserve fund has been deposited at two separate banks. Total deposits at one of these banks exceeded the amount insured by federal agencies and therefore, bear a risk of loss. FAIRFAX STATION has not experienced any losses on these funds. As of 12/31/16 and 12/31/15, FAIRFAX STATION maintained its funds in the following manner:

<u>Institution</u>	<u>Cash & Cash Equivalents</u>	
	<u>12/31/16</u>	<u>12/31/15</u>
BB&T (2 accounts)	\$532,548	\$495,583
United Bank (2 accounts)	93,933	109,933
Total	<u>\$626,481</u>	<u>\$605,516</u>

NOTE 11: SUBSEQUENT EVENTS

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through 04/05/17, the date the financial statements were available to be issued. At 12/31/16 the operating fund owed the pipestem reserve fund \$8,267, which was paid in full in April 2017.

Supplementary Information

Estimated Future Major Cost of Common Components (UNAUDITED)

During the fall of 2016, GKY & Associates conducted a Planning Bathymetric Survey and Volume Analysis (Sediment Survey) of Pickett Pond. The final report was provided in January 2017. The survey showed the pond capacity has been reduced by 19%. Sediment accumulation volume estimated in a survey completed in 2011 was 17%. The expected dredge year is 2036 when sediment accumulation is estimated to be 30%. This assumes that the pond is subjected to the same conditions over time and the same maintenance regimen that it has undergone from 1981 to 2016. The estimated dredging cost in today's dollars is \$372,600 to \$400,800. A study of the four entrance signs was conducted in 2012. It concluded that with proper maintenance, major repairs of the entrances are not expected for 25 year or longer. The following table is based on those studies.

Item	Est. Future Cost	Saved 12/31/13	2015 Contrib./Additions	Expenses 2015	Saved 12/31/15	2016 Contrib./Additions	Expenses 2015	Saved 12/31/16	Total Amount Needed	Remaining Life (Yr)	Yrly Amount Needed	2017 Planned Contribution
Pond-Dredging	400,000	78,680	5,041	- 83,721	5,040	- 88,761	311,239	20	15,562	5,000		
Entrances	No major repairs anticipated for 21 years or longer. Cost to rebuild four entrance signs estimated in 2012 at \$218,000.											