

WATERVILLE ESTATES ASSOCIATION

FINANCIAL REPORT

DECEMBER 31, 2018 AND 2017

WATERVILLE ESTATES ASSOCIATION

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DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Waterville Estates Association
Campton, New Hampshire

We have audited the accompanying financial statements of Waterville Estates Association (a New Hampshire corporation), which comprise the balance sheet as of December 31, 2018, and the related statements of revenues, expenses, and changes in fund balance, 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 statement that are free from material misstatement, whether due to fraud or error.

Auditor's 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 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, 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 Waterville Estates Association as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Waterville Estates Association's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 8, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

July 17, 2019

*Plodzik & Sanderson
Professional Association*

PLODZIK & SANDERSON, P.A.
Certified Public Accountants

FINANCIAL STATEMENTS

WATERVILLE ESTATES ASSOCIATION
BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
SEE INDEPENDENT AUDITOR'S REPORT

	<u>Operating Fund</u>	<u>Capital Reserve Fund</u>	<u>2018</u>	<u>Summarized 2017</u>
ASSETS				
CURRENT ASSETS				
Cash	\$ 95,794	\$ 288,114	\$ 383,908	\$ 228,006
Assessments receivable, net of allowance for doubtful accounts: 2018 - \$17,617, 2017 - \$13,841	3,138	-	3,138	28,456
Prepaid expenses	6,715	-	6,715	6,677
Utility deposit	3,040	-	3,040	3,040
TOTAL ASSETS	<u>\$ 108,687</u>	<u>\$ 288,114</u>	<u>\$ 396,801</u>	<u>\$ 266,179</u>
LIABILITIES AND FUND BALANCE				
CURRENT LIABILITIES				
Accounts payable	\$ 727	\$ -	\$ 727	\$ 283
Due to related party	1,697	-	1,697	-
Deferred revenue	193,758	-	193,758	143,132
TOTAL LIABILITIES	<u>196,182</u>	<u>-</u>	<u>196,182</u>	<u>143,415</u>
FUND BALANCE (DEFICIT)	<u>(87,495)</u>	<u>288,114</u>	<u>200,619</u>	<u>122,764</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 108,687</u>	<u>\$ 288,114</u>	<u>\$ 396,801</u>	<u>\$ 266,179</u>

WATERVILLE ESTATES ASSOCIATION
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
 SEE INDEPENDENT AUDITOR'S REPORT

	Operating Fund	Capital Reserve Fund	2018	Summarized 2017
REVENUES				
Member assessments	\$ 367,054	\$ 124,000	\$ 491,054	\$ 438,664
Interest income	42	510	552	504
Miscellaneous income	4,869	7,000	11,869	37,818
TOTAL REVENUES	<u>371,965</u>	<u>131,510</u>	<u>503,475</u>	<u>476,986</u>
OPERATING EXPENSES				
Facility rental	272,000	-	272,000	159,000
Management fee	100,000	-	100,000	100,000
Bad debt expense	3,776	-	3,776	11,616
Professional fees	13,953	-	13,953	13,362
Board of Director expenses	9,336	-	9,336	7,840
Administrative expenses	12,909	-	12,909	12,623
Major replacements	-	13,646	13,646	178,898
TOTAL EXPENSES	<u>411,974</u>	<u>13,646</u>	<u>425,620</u>	<u>483,339</u>
EXCESS OF REVENUES OVER EXPENSES AND (EXPENSES OVER REVENUES)	(40,009)	117,864	77,855	(6,353)
FUND BALANCE (DEFICIT), beginning of year	(44,276)	167,040	122,764	129,117
TRANSFERS	(3,210)	3,210	-	-
FUND BALANCE (DEFICIT), end of year	<u>\$ (87,495)</u>	<u>\$ 288,114</u>	<u>\$ 200,619</u>	<u>\$ 122,764</u>

WATERVILLE ESTATES ASSOCIATION
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
 SEE INDEPENDENT AUDITOR'S REPORT

	Operating Fund	Capital Reserve Fund	2018	Summarized 2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess of revenues over expenses and and (expenses over revenues)	\$ (40,009)	\$ 117,864	\$ 77,855	\$ (6,353)
Adjustments to reconcile excess revenues over expenses and (expenses over revenues) to net cash provided by (used in) operating activities:				
(Increase) decrease in assessment receivable	25,318	-	25,318	(11,520)
(Increase) decrease in related party receivable	-	-	-	3,881
(Increase) decrease in prepaid expenses	(38)	-	(38)	2
Increase (decrease) in accounts payable	444	-	444	(458)
Increase (decrease) in related party payable	1,697	-	1,697	-
Increase (decrease) in deferred revenue	50,626	-	50,626	5,187
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	38,038	117,864	155,902	(9,261)
CASH FLOWS FROM FINANCING ACTIVITIES				
Interfund transfers	(3,210)	3,210	-	-
CASH, beginning of year	60,966	167,040	228,006	237,267
CASH, end of year	\$ 95,794	\$ 288,114	\$ 383,908	\$ 228,006

*WATERVILLE ESTATES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
SEE INDEPENDENT AUDITOR'S REPORT*

NOTE 1 - ORGANIZATION

Waterville Estates Association (the "Association") was incorporated on December 27, 1972 in the State of New Hampshire. The Association was established and shall be operated to manage the interests of the homeowners/landowners, as well as for the exclusive pleasure, recreation and other not-for-profit purposes for the benefit of the owners and occupants of property located within the Waterville Village District in the Towns of Campton and Thornton, New Hampshire. The development consists of 517 residential units and 346 unimproved lots.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Association prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association.

Capital Reserve Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements.

Member Assessments

Member assessments consist primarily of assessments due from association members for operating expenses and capital improvements.

Assessments Receivable

Assessments receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Association provides for losses on assessments receivable using the allowance method. The allowance is based on experience, and other circumstances, which may affect the ability of members to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with contractual terms. It is the Association's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. At December 31, 2018 and 2017, the allowance for doubtful accounts was \$17,617 and \$13,841.

Interest Income

Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

Use of Estimates

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 and 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.

Deferred Revenue

Deferred revenue represents one-half of the dues billed in the current year for the dues year, which runs from June 15th through June 15th.

*WATERVILLE ESTATES ASSOCIATION
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NOTE 3 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Replacement funds totaled \$288,114 and \$167,040 at December 31, 2018 and 2017, respectively. Replacement cash is held in a separate account and is generally not available for operating purposes.

The Association provides funds to the Waterville Estates Village District (the "District") each year for reimbursement of major repairs and replacements; additional amounts may be requested by the District, as necessary. The District calculates funding requirements for major repairs and replacements based on estimates of current replacement costs, the estimated lives of the components and considering amounts previously accumulated in their replacement fund and estimated funds needed from the Association each year. The District originally estimated \$32,000 and \$72,000, respectively, for reimbursement by the Association for the years ended December 31, 2018 and 2017; the funds requested and paid based on actual costs of repairs made were \$13,646 and \$178,898, respectively.

NOTE 4 – MEMBER ASSESSMENTS

Association members are subject to a single annual assessment of \$754 to provide funds for the Association's operating expenses within the operating fund. For the years ended December 31, 2018 and 2017, \$754 and \$552, respectively, was assessed to members with residential units, while land owners were assessed \$121 and \$120, respectively, per lot owned. Assessments for the capital improvement fund occur at the time a land lot or existing residential unit is purchased. Homeowners purchasing an existing unit are charged \$2,000. Homeowners purchasing a land lot are charged \$1,000 at the time of purchase and an additional \$1,000 when a home is constructed. Funds contributed to the capital improvement fund may only be used for future capital expenditures and major repairs and replacements.

NOTE 5 – CONCENTRATION OF CREDIT RISK

Financial instruments that potential subject the Association to credit risk are primarily member assessments. The Association extends unsecured credit to association members for annual assessments for operating expenses and capital improvements. Finance charges are recorded monthly on balances that are considered past due. Amounts are past due when not paid by the end of the following month. Assessments receivable past due ninety days or more which management has determined that collection is doubtful total \$17,617 and \$13,841 at December 31, 2018 and 2017, respectively.

NOTE 6 – LINE OF CREDIT

The Association has a financing arrangement with Northway Bank for a line of credit, which allows for borrowings up to a maximum of \$50,000. The line of credit has a stated interest rate of prime plus 2.0% and is unsecured. The line of credit was closed as of November 14, 2018. At December 31, 2018 and 2017, there was no balance outstanding against this line of credit.

NOTE 7 – INCOME TAXES

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the years ended December 31, 2018 and 2017. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property.

The Association is no longer subject to U.S. Federal, State, and local information return examinations by tax authorities for years ending before December 31, 2015. The Association has evaluated its tax positions and concludes that there are no tax positions it has taken which if challenged would result in a material effect on the financial statements. The Association is taxed at 30% federal income tax and 7.9% State of New Hampshire business profits on its non-exempt function income, which includes, but is not limited to, interest income and revenue received from nonmembers.

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The Association's investment income and other non-exempt income net of certain expenses resulted in no taxable income at December 31, 2018 and 2017.

NOTE 8 – RELATED PARTY TRANSACTIONS

Waterville Estates Village District (the "District") is a village district located in the towns of Campton and Thornton, New Hampshire, which encompasses Waterville Estates. It was established primarily for the maintenance of common roads, buildings and the water system. The District owns the community center building and the infrastructure that serves Waterville Estates. As of July 1, 2006, the District took over the management of all activities and currently rents the building to the Association and provides management services. For the years ended December 31, 2018 and 2017, rent expense totaled \$272,000 and \$159,000, respectively. Management fees totaled \$100,000 and \$100,000 at December 31, 2018 and 2017, respectively.

NOTE 9 – SUBSEQUENT EVENTS

The Association had one recognized and no unrecognized subsequent events after December 31, 2018, the date of financial position. The Association's board of directors approved the purchase of a tract of land (Marden Drive), the total purchase price is \$30,786, and the purchase was finalized on March 18, 2019. Subsequent events have been evaluated through July 17, 2019, the date the financial statements were available to be issued.