

WATERVILLE ESTATES ASSOCIATION

FINANCIAL REPORT  
(Compiled)

DECEMBER 31, 2016

*WATERVILLE ESTATES ASSOCIATION*

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*INDEPENDENT ACCOUNTANT'S COMPILATION REPORT*

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

Management is responsible for the accompanying financial statements of Waterville Estates Association (a corporation), which comprise the balance sheet as of December 31, 2016, and the related statements of revenue, expenses, and changes in fund balance and cash flow for the year then ended, and the related notes to the financial statements, in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

*Plodzik & Sanderson  
Professional Association*

March 3, 2017

**PLODZIK & SANDERSON**  
*Professional Association | Accountants & Auditors*

*FINANCIAL STATEMENTS*

WATERVILLE ESTATES ASSOCIATION  
BALANCE SHEET  
DECEMBER 31, 2016  
SEE INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

|  | Operating<br>Fund | Capital Reserve<br>Fund | Total             |
|--|-------------------|-------------------------|-------------------|
| <b>ASSETS</b>  |                   |                         |                   |
| Current Assets   |                   |                         |                   |
| Cash   | \$ 33,794         | \$ 203,473              | \$ 237,267        |
| Assessments receivable, net of allowance for<br>doubtful accounts of \$3,600 | 16,936            | -                       | 16,936            |
| Prepaid expenses   | 6,679             | -                       | 6,679             |
| Due from related party   | 3,881             | -                       | 3,881             |
| Utility deposit  | 3,040             | -                       | 3,040             |
| <b>TOTAL ASSETS</b>  | <b>\$ 64,330</b>  | <b>\$ 203,473</b>       | <b>\$ 267,803</b> |
| <b>LIABILITIES AND FUND BALANCE</b>  |                   |                         |                   |
| Current Liabilities  |                   |                         |                   |
| Accounts payable   | \$ 741            | \$ -                    | \$ 741            |
| Deferred revenue   | 137,945           | -                       | 137,945           |
| <b>TOTAL LIABILITIES</b>   | <b>138,686</b>    | <b>-</b>                | <b>138,686</b>    |
| <br>Fund balance   | <br>(74,356)      | <br>203,473             | <br>129,117       |
| <b>TOTAL LIABILITIES AND FUND BALANCE</b>                                    | <b>\$ 64,330</b>  | <b>\$ 203,473</b>       | <b>\$ 267,803</b> |

The notes to the financial statements are an integral part of this statement.

WATERVILLE ESTATES ASSOCIATION  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE  
 FOR THE YEAR ENDED DECEMBER 31, 2016  
 SEE INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

|                                      | Operating<br>Fund  | Capital Reserve<br>Fund | Total             |
|--------------------------------------|--------------------|-------------------------|-------------------|
| REVENUES                             |                    |                         |                   |
| Member assessments                   | \$ 314,995         | \$ 97,120               | \$ 412,115        |
| Interest income                      | 15                 | 553                     | 568               |
| Miscellaneous income                 | 2,383              | 1,000                   | 3,383             |
| Total revenues                       | <u>317,393</u>     | <u>98,673</u>           | <u>416,066</u>    |
| OPERATING EXPENSES                   |                    |                         |                   |
| Facility rental                      | \$ 159,000         | \$ -                    | \$ 159,000        |
| Management fee                       | 100,000            | -                       | 100,000           |
| Professional fees                    | 17,817             | -                       | 17,817            |
| Board of Director expenses           | 8,227              | -                       | 8,227             |
| Administrative expenses              | 11,241             | -                       | 11,241            |
| Major replacements                   | -                  | 97,996                  | 97,996            |
| Total expenses                       | <u>296,285</u>     | <u>97,996</u>           | <u>394,281</u>    |
| EXCESS OF REVENUES OVER EXPENSES     | 21,108             | 677                     | 21,785            |
| FUND BALANCE, AS PREVIOUSLY STATED   | 75,105             | 206,189                 | 281,294           |
| PRIOR PERIOD ADJUSTMENT - SEE NOTE 7 | (173,962)          | -                       | (173,962)         |
| TRANSFERS                            | <u>3,393</u>       | <u>(3,393)</u>          | <u>-</u>          |
| FUND BALANCE, end of year            | <u>\$ (74,356)</u> | <u>\$ 203,473</u>       | <u>\$ 129,117</u> |

The notes to the financial statements are an integral part of this statement.

WATERVILLE ESTATES ASSOCIATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
SEE INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

|  | <u>Operating<br/>Fund</u> | <u>Capital Reserve<br/>Fund</u> | <u>Total</u>             |
|--|---------------------------|---------------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES   |                           |                                 |                          |
| Excess of revenue over expenses  | \$ 21,108                 | \$ 677                          | \$ 21,785                |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                           |                                 |                          |
| Interfund transfers  |                           |                                 |                          |
| (Increase) decrease in assessment receivable   | 11,269                    | -                               | 11,269                   |
| (Increase) decrease in prepaid expenses  | (382)                     | -                               | (382)                    |
| (Increase) decrease in related party receivable  | (3,891)                   | -                               | (3,891)                  |
| Increase (decrease) in accounts payable  | (985)                     | -                               | (985)                    |
| Increase (decrease) in deferred revenue  | (7,635)                   | -                               | (7,635)                  |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES                                      | <u>19,484</u>             | <u>677</u>                      | <u>20,161</u>            |
| CASH FLOWS FROM FINANCING ACTIVITIES   |                           |                                 |                          |
| Interfund transfers  | <u>3,393</u>              | <u>(3,393)</u>                  | <u>-</u>                 |
| NET CASH USED IN INVESTING ACTIVITIES  | <u>3,393</u>              | <u>(3,393)</u>                  | <u>-</u>                 |
| CASH, beginning of year  | <u>10,917</u>             | <u>206,189</u>                  | <u>217,106</u>           |
| CASH, end of year  | <u><u>\$ 33,794</u></u>   | <u><u>\$ 203,473</u></u>        | <u><u>\$ 237,267</u></u> |

The notes to the financial statements are an integral part of this statement.

*WATERVILLE ESTATES ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
SEE INDEPENDENT ACCOUNTANT'S COMPILATION 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 non-profitable 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 526 residential units and 147 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*

Association members are subject to a single annual assessment of \$550 to provide funds for the Association's operating expenses within the operating fund. For 2016, \$550 was assessed to members with residential units, while land owners were assessed \$120 per lot owned. Assessments for the capital improvement fund occur at the time a land lot or existing residential unit is sold. 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.

*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 2016 for the dues year, which runs from June 15, 2016 through June 14, 2017.



*WATERVILLE ESTATES ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
SEE INDEPENDENT ACCOUNTANT'S COMPILATION REPORT*

***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 \$203,473 at December 31, 2016. Replacement cash is held in separate accounts and is generally not available for operating purposes.

The Association provides funds to the Waterville Estates Village 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 \$72,000 for reimbursement by the Association for the year ended December 31, 2016, the funds requested and paid based on actual costs of repairs made were \$97,996.

***NOTE 4 – 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 1.5% and is secured by certain assets of the Association. At December 31, 2016, there was no balance outstanding against this line of credit.

***NOTE 5 – INCOME TAXES***

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2016. 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. Net non-exempt function income, which includes earned interest and revenues received from non-members, is taxed at 30% by the Federal government, and is subject to New Hampshire Business taxes. Income taxes for such unrelated business income totaled \$145.

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, 2013. 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.

***NOTE 6 – 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 year ended December 31, 2016, rent expense and management fees total \$159,000 and \$100,000, respectively.

***NOTE 7 – PRIOR PERIOD ADJUSTMENT***

Retained earnings at the beginning of 2016 have been adjusted for capital assets and related accumulated depreciation recognized in error in prior years to which the Waterville Estates Village District holds title. The correction has no effect on the results of the current year's activities; however, the cumulative effect decreases the beginning fund balance for 2016 by \$173,962.

***NOTE 8 – SUBSEQUENT EVENTS***

The Association did not have any recognized or unrecognized subsequent events after December 31, 2016, the date of the statement of financial position. Subsequent events have been evaluated through March 3, 2017, the date the financial statements were available to be issued.