

WATERVILLE ESTATES ASSOCIATION

Financial Statements

December 31, 2015

(With Independent Auditors' Report Thereon)

WATERVILLE ESTATES ASSOCIATION

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Graham & Graham, P.C.

Certified Public Accountants

Business Advisors & Management Consultants

The Solution Group

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Waterville Estates Association, which comprise the balance sheet as of December 31, 2015, and the related statements of revenues, expenses, and 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

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, 2015, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

GRAHAM & GRAHAM, P.C.

Concord, New Hampshire
March 18, 2016

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WATERVILLE ESTATES ASSOCIATION
BALANCE SHEET
December 31, 2015

	Operating Fund	Capital Reserve Fund	Total
ASSETS			
Current Assets			
Cash	\$ 10,917	\$ 206,189	\$ 217,106
Assessments receivable, net	28,205	-	28,205
Prepaid expenses	6,297	-	6,297
Utility deposit	3,040	-	3,040
Property and equipment, net	173,962	-	173,962
TOTAL ASSETS	\$ 222,421	\$ 206,189	\$ 428,610
LIABILITIES AND MEMBERS' EQUITY			
Current Liabilities			
Accounts payable	\$ 1,736	\$ -	\$ 1,736
Deferred revenue	145,580	-	145,580
Total current liabilities	147,316	-	147,316
TOTAL LIABILITIES	147,316	-	147,316
Members' equity	75,105	206,189	281,294
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 222,421	\$ 206,189	\$ 428,610

The accompanying notes are an integral part of these Financial Statements

WATERVILLE ESTATES ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
For The Year Ended December 31, 2015

	Operating Fund	Capital Reserve Fund	Total
REVENUES			
Member assessments	\$ 306,405	\$ 98,980	\$ 405,385
Interest income	29	391	420
Recreation	33,126	-	33,126
Miscellaneous income	3,651	-	3,651
	<u>343,211</u>	<u>99,371</u>	<u>442,582</u>
EXPENSES			
Facility rental	\$ 159,000	\$ -	\$ 159,000
Management fee	100,000	-	100,000
Consulting	27,206	-	27,206
Depreciation	26,723	-	26,723
Professional fees	6,918	-	6,918
Board of Director expenses	7,829	-	7,829
Administrative expenses	14,504	-	14,504
Beautification	-	1,138	1,138
Recreation equipment	-	200	200
Land gifted to the District	-	44,503	44,503
Major replacements	-	20,000	20,000
Total expenses	<u>342,180</u>	<u>65,841</u>	<u>408,021</u>
Excess of revenue over expenses	1,031	33,530	34,561
Members' equity, beginning of the year, restated	85,612	161,121	246,733
Transfers	<u>(11,538)</u>	<u>11,538</u>	<u>-</u>
Members' equity, end of the year	<u>\$ 75,105</u>	<u>\$ 206,189</u>	<u>\$ 281,294</u>

The accompanying notes are an integral part of these Financial Statements

WATERVILLE ESTATES ASSOCIATION
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2015

	Operating Fund	Capital Reserve Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over expenditures	\$ 1,031	\$ 33,530	\$ 34,561
Adjustments to reconcile excess (deficiency) of revenue over (under) expenses to net cash to net cash provided by (used in) operating activities			
Depreciation	26,723	-	26,723
(Increase) decrease in assessments receivable	(6,554)	-	(6,554)
Increase (decrease) in prepaid expenses	422	-	422
(Increase) decrease in due to District	-	(92,446)	(92,446)
Increase (decrease) in accounts payable	1,238	-	1,238
Increase (decrease) in deferred revenue	3,311	-	3,311
Total adjustments	25,140	(92,446)	(67,306)
Net cash provided by (used in)operating activities	26,171	(58,916)	(32,745)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases or property and equipment	(5,489)	-	(5,489)
Net cash used in investing activities	(5,489)	-	(5,489)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund transfers	(11,538)	11,538	-
Net cash provided by financing activities	(11,538)	11,538	-
Net increase (decrease) in cash	9,144	(47,378)	(38,234)
CASH, beginning of year	1,773	253,567	255,340
CASH, end of year	\$ 10,917	\$ 206,189	\$ 217,106

The accompanying notes are an integral part of these Financial Statements

WATERVILLE ESTATES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 – NATURE OF BUSINESS

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 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 Association is empowered to acquire, maintain, administer and care for all recreational and social facilities referred to as ‘common property’ within the development. The development consists of 510 residential units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Replacement 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 \$465 to provide for the Association’s operating expenses within the operating fund. For 2015, \$465 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.

Property and Equipment

The Association capitalizes all property to which it has title or other evidence of ownership, with the exception of real property and building improvements for which it has no title and real property directly associated with the homeowner’s property. Property and equipment acquired by the Association are recorded at cost. Depreciation is provided for on the straight line method over the estimated useful lives of the property, which ranges from 5 to 39 years.

WATERVILLE ESTATES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest Income

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

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 2015 for the dues year, which runs from July 1, 2015 to June 30, 2016.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2015:

Equipment	\$ 540,731
Furniture and fixtures	297,101
	<u>837,832</u>
Less accumulated depreciation	<u>663,870</u>
Property and equipment, net	\$ <u>173,962</u>

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, 2015, 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, 2015. 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. The Association is not subject to New Hampshire state taxes.

WATERVILLE ESTATES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 5 - INCOME TAXES (continued)

The Association's tax returns are subject to review and examination by federal, state and local authorities. Tax returns for the fiscal years ended December 31, 2012, 2013 and 2014 are subject to examination by federal, state and local authorities.

In accordance with ASC 740, *Income Taxes*, the Association evaluated its tax positions and determined that its tax positions are more-likely-than-not to be sustained on examination. Accordingly, there are no unrecognized benefits or applicable interest and penalties that should be recorded.

NOTE 6 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$206,189 at December 31, 2015, are held in separate accounts and are generally not available for operating purposes.

NOTE 7 – 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 Village District owns the community center building and the infrastructure that serves Waterville Estates. As of July 1, 2006, the Village 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, 2015, rent expense and management fees totaled \$159,000 and \$100,000, respectively.

NOTE 8 – LAND GIFT TO DISTRICT

During 2015, the Association acquired land located in Campton, New Hampshire at a cost of \$44,503. The Association's Board of Directors authorized the donation of land to the District, as permitted under New Hampshire's revised statute annotated ("RSA") 31:95-e, and as authorized by the District's Commissioners. For the year ended December 31, 2015, a land donation expense of \$44,503 was recognized in these financial statements.

NOTE 9 – RESTATEMENT OF BEGINNING MEMBERS' EQUITY

Operating Fund

The beginning Operating Fund balance of members' equity has been restated on the financial statements to record a prior period adjustment to correct 2015 member dues revenue recorded in the prior year. A reconciliation of the prior period ending Operating Fund balance to the current year beginning Operating Fund balance is as follows:

Beginning fund balance	\$ 140,229
Adjustment to correct grant revenues	<u>(54,617)</u>
Beginning fund balance, as restated	<u>\$ 85,612</u>

WATERVILLE ESTATES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 9 – RESTATEMENT OF BEGINNING MEMBERS’ EQUITY(continued)

The above adjustment increased the current year change in Operating Fund balance by \$54,617 and decreased the prior year change by \$54,617.

NOTE 10 - SUBSEQUENT EVENTS

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 18, 2016, the date that the financial statements were available to be issued.