

**The Cove at Yarmouth Resort Hotel Owners
Association, Inc. and
The Cove at Yarmouth Resort Hotel
Condominium Trust**

**Financial Statements and
Supplementary Information**

**For the Year Ended December 31, 2016
(With Comparative Totals for the Year Ended
December 31, 2015)**

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**The Cove at Yarmouth Resort Hotel Owners Association, Inc. and
The Cove at Yarmouth Resort Hotel Condominium Trust**

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Independent Accountants' Review Report

To the Board of Trustees and Members of
The Cove at Yarmouth Resort Hotel Owners Association, Inc. and
The Cove at Yarmouth Resort Hotel Condominium Trust

We have reviewed the accompanying financial statements of The Cove at Yarmouth Resort Hotel Owners Association, Inc. and, which comprise the balance sheet as of December 31, 2016, 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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion on the Financial Statements

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The 2015 financial statements of The Cove at Yarmouth Resort Hotel Owners Association, Inc. and were reviewed by us and our report, dated July 29, 2016, stated that based on the procedures we performed, we did not become aware of any material modifications that should be made to those financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the reviewed financial statements from which it has been derived.

To the Board of Trustees and Members of
The Cove at Yarmouth Resort Hotel Owners Association, Inc. and
The Cove at Yarmouth Resort Hotel Condominium Trust

Supplementary Information

Our review was made primarily for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The supplementary information in the Schedule of Operating Fund Expenses—Budget and Actual on page 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information (except for budget information, which was compiled without audit or review from information that is the representation of management, on which we do not express an opinion or any form of assurance) has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we did not become aware of any material modifications that should be made to it.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The information is the representation of management. We have compiled the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA; however, we have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on it.

August 4, 2017

**The Cove at Yarmouth Resort Hotel Owners Association, Inc. and
The Cove at Yarmouth Resort Hotel Condominium Trust**

**Balance Sheet
As of December 31, 2016
(With Comparative Totals as of December 31, 2015)**

	<u>2016</u>			<u>2015</u>
	Operating Fund	Replacement Fund	Total	Total
Assets				
Cash and cash equivalents	\$ 2,112,817	\$ 1,088,512	\$ 3,201,329	\$ 2,960,914
Certificates of deposit	497,000	764,700	1,261,700	2,006,080
Accounts receivable	55,428	30,298	85,726	28,588
Prepaid expenses and other current assets	264,048	-	264,048	186,917
Interfund balance	(424,011)	424,011	-	-
Total assets	<u>\$ 2,505,282</u>	<u>\$ 2,307,521</u>	<u>\$ 4,812,803</u>	<u>\$ 5,182,499</u>
Liabilities and Fund Balance				
Accounts payable and accrued expenses	\$ 104,394	\$ -	\$ 104,394	\$ 74,951
Prepaid assessments	2,523,243	899,192	3,422,435	3,284,606
Total liabilities	2,627,637	899,192	3,526,829	3,359,557
Fund balance (deficit)	(122,355)	1,408,329	1,285,974	1,822,942
Total liabilities and fund balance	<u>\$ 2,505,282</u>	<u>\$ 2,307,521</u>	<u>\$ 4,812,803</u>	<u>\$ 5,182,499</u>

See accompanying notes and independent accountants' review report.

**The Cove at Yarmouth Resort Hotel Owners Association, Inc. and
The Cove at Yarmouth Resort Hotel Condominium Trust**

**Statement of Revenues, Expenses and Changes in Fund Balances
For the Year Ended December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)**

	2016			2015
	Operating Fund	Replacement Fund	Total	Total
Revenues				
Annual assessments	\$ 4,126,057	\$ 1,578,801	\$ 5,704,858	\$ 5,752,992
Ancillary services	123,891	-	123,891	123,895
Rental and other assessment income	626,192	-	626,192	505,112
Reinstatement fee	37,876	-	37,876	40,724
Interest income	11,919	7,762	19,681	12,074
Bad debt recoveries	30,665	12,471	43,136	66,143
Total revenues	4,956,600	1,599,034	6,555,634	6,500,940
Expenses				
Administrative	1,597,271	214,528	1,811,799	1,769,030
Utilities	389,724	-	389,724	402,764
Operating	815,193	-	815,193	838,548
Payroll	2,133,256	-	2,133,256	1,957,467
Total operating expenses	4,935,444	214,528	5,149,972	4,967,809
Major repairs and replacements	-	1,942,630	1,942,630	2,498,048
Total expenses	4,935,444	2,157,158	7,092,602	7,465,857
Excess of (deficiency) revenues over expenses	21,156	(558,124)	(536,968)	(964,917)
Beginning fund balances (deficit)	(143,511)	1,966,453	1,822,942	2,787,859
Ending fund balances (deficit)	\$ (122,355)	\$ 1,408,329	\$ 1,285,974	\$ 1,822,942

See accompanying notes and independent accountants' review report.

**The Cove at Yarmouth Resort Hotel Owners Association, Inc. and
The Cove at Yarmouth Resort Hotel Condominium Trust**

**Statement of Cash Flows
For the Year Ended December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)**

	<u>2016</u>			<u>2015</u>
	Operating Fund	Replacement Fund	Total	Total
Cash flows from operating activities				
Excess (deficiency) of revenues over expenses	\$ 21,156	\$ (558,124)	\$ (536,968)	\$ (964,917)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:				
Interfund balance	116,690	(116,690)	-	-
(Increase) decrease in:				
Accounts receivable	(26,840)	(30,298)	(57,138)	26,295
Prepaid expenses and other current assets	(77,131)	-	(77,131)	465,694
(Decrease) increase in:				
Accounts payable and accrued expenses	29,443	-	29,443	(52,457)
Prepaid assessments	123,111	14,718	137,829	(111,515)
Net cash provided (used) by operating activities	<u>186,429</u>	<u>(690,394)</u>	<u>(503,965)</u>	<u>(636,900)</u>
Cash flows from investing activities				
Certificates of deposit	303,332	441,048	744,380	156,920
Net increase (decrease) in cash and cash equivalents	489,761	(249,346)	240,415	(479,980)
Cash and cash equivalents, beginning of year	1,623,056	1,337,858	2,960,914	3,440,894
Cash and cash equivalents, end of year	<u>\$ 2,112,817</u>	<u>\$ 1,088,512</u>	<u>\$ 3,201,329</u>	<u>\$ 2,960,914</u>
Supplemental cash flow disclosures:				
Income taxes paid	\$ -	\$ -	\$ -	\$ -
Interest paid	\$ -	\$ -	\$ -	\$ -

See accompanying notes and independent accountants' review report.

**The Cove at Yarmouth Resort Hotel Owners Association, Inc. and
The Cove at Yarmouth Resort Hotel Condominium Trust**

**Notes to Financial Statements
December 31, 2016 and 2015**

Note 1 – Nature of Organization

The Cove at Yarmouth Resort Hotel Owners Association, Inc. and The Cove at Yarmouth Resort Hotel Condominium Trust were originally recorded on January 20, 1986, located in the County of Barnstable of the Commonwealth of Massachusetts. The Master Deed was created pursuant to the provisions of Chapter 183B of the General Laws of the Commonwealth of Massachusetts. The condominium is located in Yarmouth and consists of 229 residential units.

The condominium consists of 11,679 ownership intervals, based upon 229 units available for 51 weeks of each year. One week is reserved, annually, for maintenance.

The affairs of the Trust are administered by a Board of Trustees.

Note 2 – Summary of Significant Accounting Policies

Method of 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 accrual-basis 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 operation of the Association.

Replacement Fund

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 vary from those estimates.

Member Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Any excess assessments at year end are retained by the Association for use in future years.

Advertising Costs

The Association expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2016 and 2015 amounted to \$30,330 and \$27,269, respectively.

**The Cove at Yarmouth Resort Hotel Owners Association, Inc. and
The Cove at Yarmouth Resort Hotel Condominium Trust**

**Notes to Financial Statements
December 31, 2016 and 2015**

Note 2 – Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Association considers all highly liquid investments with maturities of no greater than 90 days to be cash equivalents. From time to time, cash balances in these accounts may exceed federally insured limits. To date, the Association has not experienced any losses in any of its accounts and does not believe it is exposed to any significant credit risk on its cash.

At December 31, 2016 and 2015 the Association had deposits in excess of Federal Deposit Insurance Corporation (FDIC) limits of approximately \$1,860,000 and \$1,749,000, respectively.

Certificates of Deposit

Certificates of deposit consist of CDs with original maturities greater than ninety days.

Income Taxes

Timeshare associations may be taxed either as homeowners associations or as regular corporations. For the year ended December 31, 2016, the Association was taxed as a homeowners association in accordance with Internal Revenue Code Section 528. Under that section the Association is taxed only on its net nonexempt function income, such as interest income, at the rate of 32%.

Effective January 1, 2009, the Association has adopted Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 740-10, formerly FIN 48, 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 federal and state taxing authorities.

Property and Equipment

The Association only capitalizes property and equipment to which it holds title or has other evidence of ownership and which may be disposed of at the discretion of the Board of Trustees. Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Associations' financial statements because those properties are owned by the individual unit owners in common and not by the Association. The Association capitalizes personal property at cost and depreciates it over its useful life.

Prepaid Assessments

Prepaid assessments shown in the accompanying balance sheet represents the amount of subsequent year member assessments collected from interval owners on or before December 31, 2016 and 2015.

Subsequent Events

Subsequent events have been evaluated through August 4, 2017, which is the date the financials were available to be issued.

Reclassifications

Certain reclassifications have been made to the prior year comparative totals in order to conform to the current year presentation. These reclassifications have no effect on prior year net income.

**The Cove at Yarmouth Resort Hotel Owners Association, Inc. and
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**Notes to Financial Statements
December 31, 2016 and 2015**

Note 3 – Management Company Fees

On January 1, 2005, the Association renewed the vacation ownership management agreement with Vacation Resorts International (agent) to perform total management services through December 2018. Services require the collection of annual and special assessments, supervision of the complex, control of the funds, etc. Compensation for these services is based on an annual fee as of December 31, 2016 and 2015 of \$178,829 and \$176,916, respectively, payable monthly. The agreement also provides for additional services for rentals, collections, etc., at specific charges as set forth in the agreement.

Note 4 – Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds in the replacement fund, which aggregate \$1,408,329 and \$1,966,453 at December 31, 2016 and 2015, respectively, are held in separate accounts and are generally not available for operating purposes. It is the Association's policy to allocate interest earned on such funds to the Replacement Fund.

Actual expenditures may vary from estimated future expenditures and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, levy special assessments, or delay major repairs and replacements until funds are available.

Note 5 – Lease

During January 2016, The Association entered into a new three-year lease of the restaurant space with Rourke's Top of The Cove, LLC ("the tenant"). There are five additional three-year extensions available provided the tenant is in compliance with the terms and conditions of the lease. Under the terms of the lease the tenant agrees to annually pay a base rent of \$20,000, and beginning January 1, 2017 will pay 4% of the gross revenue of the tenant in excess of \$600,000.

During February 2016, the Association offered the new tenant described above a construction line of credit in the amount of \$40,000. The tenant was able to draw on the line of credit until June 30, 2016 at which point it became a note payable with a fixed rate of interest at 3%. Payments of interest and principal are being made from June 30, 2016 through the maturity date of December 31, 2018. The receivable balance as of December 31, 2016 was \$30,298.

Note 6 – Commitments

During August 2016 the Board of Trustees entered into a \$581,839 contract for phase III renovations. As of December 31, 2016, \$290,919 remained to completed this contract.

During November 2016 the Board of Trustees entered into a \$193,224 carpet replacement contract. As of December 31, 2016, \$84,429 remained to complete this contract.

Supplementary Information

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**The Cove at Yarmouth Resort Hotel Owners Association, Inc. and
The Cove at Yarmouth Resort Hotel Condominium Trust**

**Schedule of Operating Fund Expenses - Budget and Actual
For the Year Ended December 31, 2016**

(With Comparative Totals for the Year Ended December 31, 2015)

	2016		2015
	(Compiled) Budget	Actual	Actual
Administrative			
Bad debt expense	\$ 512,940	\$ 548,501	\$ 510,794
Bookkeeping services	51,984	52,027	51,468
Data processing	53,280	53,324	52,752
Insurance-general	315,600	280,543	294,778
Internet expense	13,740	15,940	13,666
Management fees	178,680	178,829	176,916
Miscellaneous	8,800	4,891	8,707
Office, billing, and administration	290,381	284,928	267,905
Professional services	33,000	26,884	42,993
Security	46,800	52,985	46,557
Storage charges	3,000	2,951	5,517
Taxes-other	-	2,173	3,081
Taxes-real estate	102,000	93,295	92,985
	<u>1,610,205</u>	<u>1,597,271</u>	<u>1,568,119</u>
Utilities			
Electricity	345,000	342,239	313,120
Gas	90,000	26,297	64,048
Water	26,800	21,188	25,596
	<u>461,800</u>	<u>389,724</u>	<u>402,764</u>
Operating			
Advertising	29,000	30,330	27,269
Cleaning supplies and service	153,770	165,020	152,874
Landscaping	58,300	57,678	50,053
Laundry services	235,000	266,038	251,751
Merchandise purchases	7,000	8,342	6,441
Repairs and maintenance	197,900	149,078	214,198
Rubbish removal	21,400	23,763	22,088
Sewage removal	57,000	59,867	62,943
Telephone	12,600	13,815	12,308
Television	40,200	41,262	38,623
	<u>812,170</u>	<u>815,193</u>	<u>838,548</u>
Payroll			
Front desk salaries	1,785,840	1,855,321	1,722,726
Insurance-health	96,000	100,461	70,856
Payroll taxes	218,312	162,322	150,683
Pension contribution	13,200	15,152	13,202
	<u>2,113,352</u>	<u>2,133,256</u>	<u>1,957,467</u>
Total operating fund expense	<u>\$ 4,997,527</u>	<u>\$ 4,935,444</u>	<u>\$ 4,766,898</u>

See independent accountants' review report.

**The Cove at Yarmouth Resort Hotel Owners Association, Inc. and
The Cove at Yarmouth Resort Hotel Condominium Trust**

Supplementary Information on Future Major Repairs and Replacements

December 31, 2016

(Compiled)

Trower, an independent engineering firm, conducted a study in September 2016 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study.

The following information is based on the study and presents significant information about the components of common property.

<u>Component</u>	<u>Estimated Remaining Useful Life in Years</u>	<u>Estimated Replacement Cost at September 2016</u>
Roofing	5-26	\$ 2,855,976
Exterior trim	21	792,076
Paving	1-18	274,243
Exterior replacements	1-25	593,897
Interior commons	1-18	702,120
Dover elevator	1-21	113,153
Unit interiors	1-16	5,128,706
Racquet sports center	1-24	226,840
Health club	1-20	131,034
Atrium pool area	3-28	388,678
Exterior pool area	3-16	47,627
Exterior tennis courts	1-17	26,075
Fire and privacy	6-28	487,847
Exterior lighting	12-28	63,185
Plumbing and mechanical	1-30	1,782,275
Miscellaneous	10	6,920
		<u>\$ 13,620,652</u>

See independent accountants' review report.