



Principals

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Associate Principals

Jeremy W. Powell, CPA
Renee L. Watson, CPA

Managers

Allison A. Day, CPA
Matthew T. Stiefvater, CPA
Sheila M. Lewis, CPA

Independent Auditor's Report

To the Board of Directors of
Snow Hill Homeowners Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Snow Hill Homeowners Association, Inc., which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income, members' equity and cash flows for the years 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 audits. We conducted our audits 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 Snow Hill 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 information on future major repairs and replacements on page 10 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Goldklang Group CPAs, P.C.

Reston, Virginia
July 11, 2017

SNOW HILL HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 81,833	\$ 108,663
Interest-Bearing Deposits	101,145	50,488
Assessments Receivable	237	-
Accrued Interest	166	55
Prepaid Expenses	<u>1,234</u>	<u>1,180</u>
Total Assets	<u>\$ 184,615</u>	<u>\$ 160,386</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 665	\$ 378
Prepaid Assessments	<u>47,679</u>	<u>39,409</u>
Total Liabilities	<u>\$ 48,344</u>	<u>\$ 39,787</u>
Replacement Reserves	\$ 110,644	\$ 91,999
Unappropriated Members' Equity	<u>25,627</u>	<u>28,600</u>
Total Members' Equity	<u>\$ 136,271</u>	<u>\$ 120,599</u>
Total Liabilities and Members' Equity	<u>\$ 184,615</u>	<u>\$ 160,386</u>

See Accompanying Notes to Financial Statements

SNOW HILL HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>INCOME:</u>		
Assessments	\$ 80,360	\$ 80,360
Interest	918	751
Other	<u>25</u>	<u>285</u>
Total Income	<u>\$ 81,303</u>	<u>\$ 81,396</u>
 <u>EXPENSES:</u>		
Management	\$ 17,944	\$ 17,089
Legal, Audit and Tax Preparation	7,826	4,178
Insurance	2,602	2,550
Printing and Postage	1,278	1,903
Administrative	3,157	2,529
Electricity	196	193
Grounds Maintenance	22,971	24,430
Common Area Maintenance	311	1,693
Community Improvements	<u>3,250</u>	<u>2,224</u>
Total Expenses	<u>\$ 59,535</u>	<u>\$ 56,789</u>
Net Income before Contribution to Reserves	\$ 21,768	\$ 24,607
Contribution to Reserves	<u>(24,741)</u>	<u>(25,400)</u>
Net Income (Loss)	<u>\$ (2,973)</u>	<u>\$ (793)</u>

See Accompanying Notes to Financial Statements

SNOW HILL HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2014	\$ 72,575	\$ 29,393	\$ 101,968
Addition:			
Contribution to Reserves	25,400		25,400
Deductions:			
Lake and Pond Management Net Loss	(5,976)	(793)	(5,976) (793)
Balance as of December 31, 2015	\$ 91,999	\$ 28,600	\$ 120,599
Addition:			
Contribution to Reserves	24,741		24,741
Deductions:			
Lake and Pond Management Net Loss	(6,096)	(2,973)	(6,096) (2,973)
Balance as of December 31, 2016	<u>\$ 110,644</u>	<u>\$ 25,627</u>	<u>\$ 136,271</u>

See Accompanying Notes to Financial Statements

SNOW HILL HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	\$ (2,973)	\$ (793)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Decrease (Increase) in:		
Assessments Receivable	(237)	35
Accrued Interest	(111)	(55)
Prepaid Expenses	(54)	1,812
Increase (Decrease) in:		
Accounts Payable	287	(132)
Prepaid Assessments	8,270	(6,551)
Net Cash Flows from Operating Activities	<u>\$ 5,182</u>	<u>\$ (5,684)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 24,741	\$ 25,400
Disbursed for Reserve Expenditures	(6,096)	(5,976)
Disbursed for Interest-Bearing Deposits	<u>(50,657)</u>	<u>(50,488)</u>
Net Cash Flows from Investing Activities	<u>\$ (32,012)</u>	<u>\$ (31,064)</u>
Net Change in Cash and Cash Equivalents	\$ (26,830)	\$ (36,748)
Cash and Cash Equivalents at Beginning of Year	<u>108,663</u>	<u>145,411</u>
Cash and Cash Equivalents at End of Year	<u>\$ 81,833</u>	<u>\$ 108,663</u>

See Accompanying Notes to Financial Statements

SNOW HILL HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 - NATURE OF OPERATIONS:

The Association is organized and incorporated under the laws of the Commonwealth of Virginia for the purposes of preserving and maintaining the common property of the community. The Association is located in Warrenton, Virginia and consists of 164 homes. The Association's Board of Directors administers the community operations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

A) Method of Accounting - The financial statements are presented on the accrual method of accounting in which revenues are recognized when earned and expenses when incurred, not necessarily when received or paid.

B) Member Assessments - Association members are subject to assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from homeowners. The Association's policy is to assess late and interest charges and to retain legal counsel and place liens on the properties of owners whose assessments are delinquent. Any excess assessments at year-end are retained by the Association for use in future years. The Association utilizes the allowance method to account for bad debt.

C) Common Property - Real property and common areas acquired from the declarant and related improvements to such property are not recorded in the Association's financial statements since the property cannot be disposed of at the discretion of the Board of Directors. Common property includes, but is not limited to, land and site improvements.

D) Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions. Such estimates affect the reported amounts of assets and liabilities. They also affect 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.

E) Cash Equivalents - For purposes of the statement of cash flows, the Association considers all highly liquid investments and interest-bearing deposits with an original maturity date of three months or less to be cash equivalents.

NOTE 3 - REPLACEMENT RESERVES:

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are generally not available for expenditures for normal operations.

SNOW HILL HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

The Association had a replacement reserve study conducted by management and the Board of Directors during 2015. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The study recommends a contribution to reserves of \$24,740 for 2016. For 2016, the Association budgeted to contribute \$24,741 to reserves.

Funds are being accumulated in replacement reserves based on estimates of future needs for repair and replacement of common property components. Actual expenditures may vary from the estimated future expenditures and the variations may be material; therefore, amounts accumulated in the replacement reserves may or may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As of December 31, 2016 and 2015, the Association had designated \$110,644 and \$91,999, respectively, for replacement reserves. These designated reserves were funded by cash and interest-bearing deposits.

NOTE 4 - INCOME TAXES:

For income tax purposes, the Association 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 income 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, the income taxes were calculated using the exempt method, which resulted in no income tax liability.

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.

SNOW HILL HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 5 - CASH AND CASH EQUIVALENTS:

As of December 31, 2016, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Interest- Bearing Deposits</u>	<u>Total</u>
Mutual of Omaha	Checking	\$ 60,515	\$ -	\$ 60,515
Mutual of Omaha	Money Market	21,318		21,318
Freedom Bank	Certificate of Deposit		51,145	51,145
First Virginia Community Bank	Certificate of Deposit		50,000	50,000
	Totals	<u>\$ 81,833</u>	<u>\$ 101,145</u>	<u>\$ 182,978</u>

NOTE 6 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 11, 2017, the date the financial statements were available to be issued.

SNOW HILL HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2016
(UNAUDITED)

The Association had a replacement reserve study conducted by management and the Board of Directors during 2015 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 estimated replacement costs presented below do not take into account the effects of inflation between the date of the study and the date the components will require repair or replacement; however, the Association's replacement reserve study does take inflation into consideration when evaluating future expenditures and recommended contributions to reserves. The study does not present the estimated remaining useful lives in a format that can be summarized. Therefore, the estimated remaining useful lives of the common property components are not presented below.

The following has been extracted from the Association's replacement reserve study and presents significant information about the components of common property.

<u>Component</u>	<u>2015 Estimated Replacement Cost</u>
Front Entrance Features	\$ 14,587
Tennis Court Features	179,361
Pond Restoration and Dredging	191,823
Pond and Tennis Signs	600
Wooden Foot Bridge	4,482
Rear Entrance Features	7,542



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Management Letter

This communication is intended solely for the information and use of management and the board of directors and is not intended to be and should not be used by anyone other than these specified parties.

February 27, 2017

Board of Directors
Snow Hill Homeowners Association, Inc.

Dear Board Members:

In planning and performing our audit of the financial statements of Snow Hill Homeowners Association, Inc. as of December 31, 2016 and for the year then ended, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and improving operating efficiency. This letter summarizes our comments and suggestions regarding those matters.

Association Specific Comments

Financial Analysis

Associations budget their income evenly over a twelve-month period. When assessments become delinquent, cash flow problems develop and the Association may have problems paying its monthly expenses. Assessments receivable at a level of 3% or less of annual assessments indicates good collection procedures and has a positive impact on cash flow, whereas a balance of more than 3% of annual assessments suggests the Association may have future cash flow problems. As of December 31, 2016, the Association's assessments receivable balance of \$237 was less than 1% of annual assessments. We commend the Association for maintaining a low assessments receivable balance of less than 1% of annual assessments.

As of December 31, 2016, the Association had a surplus of \$25,627 in unappropriated members' equity (excess operating funds). This represents 32% of annual assessments. We recommend the Association

maintain excess operating funds at a level of 10% to 20% of annual assessments. Any funds in excess of 20% may be transferred to replacement reserves.

The designated replacement reserves of \$110,644 as of December 31, 2016 were funded by cash and interest-bearing deposits.

Income Taxes

For 2016, we recommend the Association file using the exempt method.

Industry Standard Comments

Insurance

We recommend the Association meet with its insurance agent at least annually to discuss insurance coverage. The Association should make sure the insurance policies provide the necessary and appropriate protection. In addition to all of the standard coverage that is usually recommended, the Association should maintain appropriate crime and directors & officers (D&O) coverage. At a minimum, the Association should maintain crime coverage that equals or exceeds the total of its funds or as required by state law. It should be structured to include a defalcation or misappropriation committed by a Board member, an employee of the Association, or employees of the management company, including principals.

Investment Policy

The Association should have a conservative investment policy, which is structured around three elements, in order of importance 1) safety, 2) liquidity and 3) yield. Because safety and liquidity are of prime importance to any association, we recommend investments be limited to instruments of the federal government, which are backed by its full faith and credit, and money market accounts and certificates of deposit at insured institutions.

Periodically, the Association should monitor its accounts for FDIC and SIPC coverage. The FDIC insurance limit is \$250,000 per financial institution. Cash and securities held at a SIPC member brokerage firm are insured by the SIPC for up to \$500,000, which includes \$250,000 limit for cash. The Association should also periodically check the ratings for all financial institutions used by the Association.

We shall be pleased to discuss our comments and recommendations in greater detail and we are always available to give advice on any financial matter. Please do not hesitate to contact us if there are any questions regarding proper accounting procedures or the implementation of our suggested changes.

Very truly yours,

Goldklang Group CPAs, P.C.

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