

Notes on Evans Cottage LLC Capital Accounting

Initial Facts

1. The value of the Haversham property was taken to be \$699,500 on December 30, 1999, when the Evans Cottage LLC (ECLLC) was formed.
2. Initial fractional ownership is listed on the first page of the accounting spreadsheet. Most ownership was held within the framework of ECLLC, but Margaret Carson (1/6 ownership), Marjory Evans (1/18), and Thomas Evans's daughters Sylvia, Velma, and Lewanda (each 1/30) remained outside the ECLLC. The 2001 buyout of Sylvia, Velma, and Lewanda was based on the 1999 property evaluation.

Guiding Principles

1. Starting in 2001, property evaluations at the end of each year are taken (for our bookkeeping purposes) as the assessment specified on our tax bill.
2. Accounts are kept so that the total number of ownership shares (both within and outside the ECLLC) is always 100. This makes it convenient to keep "Capital Accounts" for each LLC member, as specified in our bylaws, while also accounting for ownership shares held outside the LLC.
3. ECLLC operates on a calendar year cash accounting basis. We normally plan to have only a small ECLLC checking account balance at the end of a calendar year.
4. Contributions may sometimes be requested of ECLLC members in order to meet cash-flow needs. In all other respects, member and nonmember owners are treated identically.
5. The following definitions apply to the remainder of this document.
 - a. **ObligationOwed** is each owner's annual allocation of taxes and major maintenance costs, assessed in proportion to fractional ownership.
 - b. **ObligationPaid** is the amount paid by each owner toward (or possibly in excess of) his/her ObligationOwed. No owner will be credited with an amount that would make the total paid by all owners greater than the total of all obligations for that year.
 - c. **User Expenses** include normal operating expenses such as electricity, telephone, trash, beach tags, etc.
 - d. **User Fees** amount to rental charges: they buy usage of Haversham for a specified time, normally one or two weeks.
 - e. The sum of all User Fees paid for a calendar normally exceeds that year's User Expenses. The excess amount is credited as **AdditionalObligationDeemedPaid** for all those who paid User Fees (or credited to a designated family member who is an owner), in proportion to the user fee paid.
 - f. **TotalObligationPaid** is the sum of ObligationPaid and AdditionalObligationPaid.
6. An unmet obligation (that is, TotalObligationPaid less than ObligationOwed) leads to reduced fractional ownership. Conversely, when TotalObligationPaid exceeds ObligationOwed, fractional ownership increases.

7. When a family member who wishes to become an owner contributes to ECLLC beyond the relevant user fee, the excess amount is taken to create new fractional ownership.
8. Ownership fractions are recalculated at the end of each year, based on the currently assessed total property value and on each owner's ObligationOwed and Total ObligationPaid.
9. Ownership shares may be bought and sold within the extended family at any mutually agreed price. Owing to the encumbrances and illiquidity of fractional ownership of this type, sales will generally take place at a substantial discount from any nominal "book value" of the shares.

Details of Spreadsheet Calculations

Starting in 2000, for each calendar year the spreadsheet requires as input information:

1. Assessed value of the Haversham property
2. Taxes paid
3. Expenditures for major maintenance and insurance
4. Amount paid by each owner as ObligationPaid
5. Amount paid by each user as User Fees.

Starting with fractional ownership values from the previous year, the spreadsheet calculates for each owner:

1. Obligation for payment of taxes and major maintenance, using the equation

$$\text{ObligationOwed} = (\text{Taxes} + \text{MajorMaintenance}) \times \text{FractionalOwnership}$$
2. End-of-year adjusted fractional ownership, using the equations

$$\text{EndingValue} = \text{PropertyValue} \times \text{FractionalOwnership} + \text{TotalObligationPaid} - \text{ObligationOwed}$$

$$\text{EndingFractionalOwnership} = \text{EndingValue} / \text{PropertyValue}$$

$$\text{EndingShares} = \text{EndingFractionalOwnership} \times 100$$

[Note: Detailed records of user fees paid in years 2002 – 2010 are not available. Therefore, as an approximation the spreadsheet allocates user-fee credits equally to the six principal family units among our active ECLLC members: J&M Taylor, J&A Taylor, Posts, Elizabeth Evans, Harold Taylor family, and (starting in 2002) the Anne and David Emerson family.]