

WATERVILLE ESTATES ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2011

WATERVILLE ESTATES ASSOCIATION

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J. Harding & Company, PLLC
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To the Board of Directors and Members
Waterville Estates Association
Campton, New Hampshire

Independent Auditor's Report

We have audited the balance sheet of Waterville Estates Association as of December 31, 2011, and the related statements of revenues and expenses, and changes in members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, 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.

Waterville Estates Association has not estimated the remaining useful lives and replacement costs of the common property and, therefore, has not presented supplementary information on future major repairs and replacements that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of the basic financial statements.

J. Harding & Company, PLLC

Plymouth, New Hampshire
March 27, 2012

WATERVILLE ESTATES ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2011

	<u>OPERATING</u> <u>FUND</u>	<u>CAPITAL</u> <u>IMPROVEMENT</u> <u>FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash	\$ 24,224	\$ 179,343	\$ 203,567
Assessments receivable - net	24,087	-	24,087
Interfund receivable (payable)	(2,142)	2,142	-
Prepaid expenses	2,022	-	2,022
Utility deposit	3,040	-	3,040
Property and equipment - net	<u>118,875</u>	<u> </u>	<u>118,875</u>
TOTAL ASSETS	<u>\$ 170,106</u>	<u>\$ 181,485</u>	<u>\$ 351,591</u>
 LIABILITIES AND MEMBERS' EQUITY			
Accounts payable	\$ 885	\$ -	\$ 885
Due to District	-	5,403	5,403
Deferred revenue	<u>104,460</u>	<u> </u>	<u>104,460</u>
Total Liabilities	105,345	5,403	110,748
 Members' equity (deficit)	 <u>64,761</u>	 <u>176,082</u>	 <u>240,843</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 170,106</u>	<u>\$ 181,485</u>	<u>\$ 351,591</u>

The accompanying notes are an integral part of these financial statements

WATERVILLE ESTATES ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>OPERATING FUND</u>	<u>CAPITAL IMPROVEMENT FUND</u>	<u>TOTAL</u>
Revenues			
Member assessments	\$ 294,760	\$ 48,000	\$ 342,760
Interest income	22	86	108
Recreation	25,554	-	25,554
Miscellaneous income	<u>7,655</u>	<u>-</u>	<u>7,655</u>
Total Revenues	<u>327,991</u>	<u>48,086</u>	<u>376,077</u>
Expenses			
Facility rental	195,000	-	195,000
Management fee	100,000	-	100,000
Consulting	25,554	-	25,554
Depreciation	28,602	-	28,602
Professional	5,381	-	5,381
Board of Director expenses	5,832	-	5,832
Administrative expenses	4,371	-	4,371
Major replacements	-	33,574	33,574
Miscellaneous	<u>662</u>	<u>-</u>	<u>662</u>
Total Expenses	<u>365,402</u>	<u>33,574</u>	<u>398,976</u>
Excess of Revenue Over (Under) Expenses	(37,411)	14,512	(22,899)
Members' Equity - beginning of year	<u>102,172</u>	<u>161,570</u>	<u>263,742</u>
Members' Equity - end of year	<u>\$ 64,761</u>	<u>\$ 176,082</u>	<u>\$ 240,843</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, 2011

	<u>OPERATING FUND</u>	<u>CAPITAL IMPROVEMENT FUND</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over (under) expenses	\$ (37,411)	\$ 14,512	\$ (22,899)
Adjustments to reconcile excess of revenue over (under) expenses to net cash provided by (used in) operating activities:			
Depreciation	28,602	-	28,602
Interfund receivable/payable	(320)	320	-
Decrease (Increase) in:			
Assessments and other receivables	14,856	-	14,856
Due from District	-	(27,034)	(27,034)
Prepaid expenses	(19)	-	(19)
Increase (Decrease) in:			
Accounts payable	(2,717)	-	(2,717)
Deferred revenue	852	-	852
	<u>41,254</u>	<u>(26,714)</u>	<u>14,540</u>
Net Cash Provided By (Used in) Operating Activities	<u>3,843</u>	<u>(12,202)</u>	<u>(8,359)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	<u>(7,945)</u>	<u>-</u>	<u>(7,945)</u>
Net Cash Provided By (Used In) Investing Activities	<u>(7,945)</u>	<u>-</u>	<u>(7,945)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Cash Provided By (Used In) Interfund transfers	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Provided By (Used In) Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in cash	(4,102)	(12,202)	(16,304)
Cash - beginning of year	<u>28,326</u>	<u>191,545</u>	<u>219,871</u>
Cash - end of year	<u>\$ 24,224</u>	<u>\$ 179,343</u>	<u>\$ 203,567</u>
Supplemental Cash Flow Disclosures			
Interest paid			<u>\$ -</u>
Income taxes paid			<u>\$ -</u>

The accompanying notes are an integral part of these financial statements

WATERVILLE ESTATES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of 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 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 662 residential units.

Fund Accounting – The Association maintains its accounts using fund accounting. Financial resources are classified for accounting purposes in the following funds established according to their nature and purpose:

Operating Fund – This fund is used to account for the financial resources available for the general operations of the Association.

Capital Improvement 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. Assessments for the capital improvement fund occur at the time a land lot or existing residential unit is sold. Homeowners purchasing an existing unit are charged \$ 2,000. 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.

Deposits - The Association maintained three cash accounts in two financial institutions as of December 31, 2011. Bank balances totaled, in the aggregate, \$ 193,883, all of which were below the Federal Deposit Insurance Corporation (FDIC) limit of \$ 250,000.

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.

Interest Income – Interest income is allocated directly to the operating fund and capital improvement fund in proportion to the interest-bearing deposits in each fund.

Income Taxes – Homeowners’ associations may be taxed either as homeowners’ associations or as regular corporations. For the year ended December 31, 2011, the Association was taxed as a homeowners’ association. As a homeowners’ association, membership income is exempt from taxation, and the Association is taxed only on its nonmembership income, such as interest income, at federal and state corporate rates.

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 may differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DEFERRED REVENUE

Deferred revenue represents one-third of the dues for the dues year which runs from May 1, 2011 to April 30, 2012 and uncollected late fees.

NOTE 2 – CAPITAL IMPROVEMENT FUND

The Association governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which approximated \$ 179,343 at December 31, 2011, are held in separate accounts and are generally not available for operating purposes.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2011:

Equipment	\$	512,518
Furniture and Fixtures		<u>187,990</u>
Total		700,508
Less accumulated depreciation		<u>581,634</u>
Net Property and Equipment	\$	<u>118,874</u>

NOTE 4 – FINANCING ARRANGEMENT

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 arrangement has a stated interest rate of prime plus 1.5% and is secured by certain assets of the Association. At December 31, 2011, there was no outstanding balance against this line of credit.

NOTE 5 – RELATED PARTY TRANSACTIONS

Waterville Estates Village District is a village district located in the towns of Campton and Thornton, New Hampshire, which encompass 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 2011, rent expense totaled \$ 195,000 and management fees totaled \$ 100,000.

NOTE 6 - LITIGATION

On March 28, 2006, New Hampshire Superior Court issued a default judgment against the Association's former president who had misappropriated funds and received payment for unperformed services in the original amount of \$ 41,000. In addition, cumulative legal fees and interest on the unpaid balance totaled \$ 289,032 for a total due to the Association of \$ 330,032 as of December 31, 2011. However, since collection of the judgment is not assured beyond a reasonable doubt, no adjustment has been made to the financial statements to record the balance due.

NOTE 7 – ACCOUNTS RECEIVABLE

During 2011, it was determined that an account was not collectible and the unit owner had left the area and could not be found. As a result, the account receivable in the amount of \$ 65,590 has been written off as non-collectible.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 27, 2012, the date in which the financial statements were available to be issued.