

WATERVILLE ESTATES ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2012

WATERVILLE ESTATES ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Waterville Estates Association
Campton, New Hampshire

We have audited the accompanying financial statements of Waterville Estates Association which comprise the balance sheet as of ended December 31, 2012, and the related statements of revenues and 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 opinions 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 of 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 respective financial position of the Waterville Estates Association as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matter

Management has not estimated the remaining useful lives and replacement costs of the common property, and therefore, omitted supplementary information on the future major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

J. Harding & Company, PLLC

Plymouth, New Hampshire
February 28, 2013

WATERVILLE ESTATES ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2012

	<u>OPERATING</u> <u>FUND</u>	<u>CAPITAL</u> <u>IMPROVEMENT</u> <u>FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash	\$ 10,410	\$ 212,407	\$ 222,817
Assessments receivable - net	15,413	-	15,413
Interfund receivable (payable)	9,916	(9,916)	-
Prepaid expenses	5,920	-	5,920
Utility deposit	3,040	-	3,040
Property and equipment - net	<u>97,908</u>	<u> </u>	<u>97,908</u>
TOTAL ASSETS	<u>\$ 140,465</u>	<u>\$ 204,633</u>	<u>\$ 345,098</u>
 LIABILITIES AND MEMBERS' EQUITY			
Accounts payable	\$ 159	\$ -	\$ 159
Due to District	-	978	978
Deferred revenue	<u>104,097</u>	<u> </u>	<u>104,097</u>
Total Liabilities	104,256	978	105,234
 Members' equity (deficit)	 <u>36,209</u>	 <u>203,655</u>	 <u>239,864</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 140,465</u>	<u>\$ 204,633</u>	<u>\$ 345,098</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, 2012

	<u>OPERATING</u> <u>FUND</u>	<u>CAPITAL</u> <u>IMPROVEMENT</u> <u>FUND</u>	<u>TOTAL</u>
Revenues			
Member assessments	\$ 297,971	\$ 62,000	\$ 359,971
Interest income	101	240	341
Recreation	28,732	-	28,732
Miscellaneous income	<u>4,698</u>	<u>-</u>	<u>4,698</u>
Total Revenues	<u>331,502</u>	<u>62,240</u>	<u>393,742</u>
Expenses			
Facility rental	188,416	-	188,416
Management fee	100,000	-	100,000
Consulting	28,732	-	28,732
Depreciation	20,967	-	20,967
Professional	6,991	-	6,991
Board of Director expenses	10,907	-	10,907
Administrative expenses	2,742	-	2,742
Major replacements	-	34,667	34,667
Miscellaneous	<u>1,299</u>	<u>-</u>	<u>1,299</u>
Total Expenses	<u>360,054</u>	<u>34,667</u>	<u>394,721</u>
Excess of Revenue Over (Under) Expenses	(28,552)	27,573	(979)
Members' Equity - beginning of year	<u>64,761</u>	<u>176,082</u>	<u>240,843</u>
Members' Equity - end of year	<u>\$ 36,209</u>	<u>\$ 203,655</u>	<u>\$ 239,864</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, 2012

	<u>OPERATING FUND</u>	<u>CAPITAL IMPROVEMENT FUND</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over (under) expenses	\$ (28,552)	\$ 27,573	\$ (979)
Adjustments to reconcile excess of revenue over (under) expenses to net cash provided by (used in) operating activities:			
Depreciation	20,967	-	20,967
Interfund receivable/payable	(9,916)	9,916	-
Decrease (Increase) in:			
Assessments and other receivables	8,674	-	8,674
Due to District	-	(4,425)	(4,425)
Prepaid expenses	(3,898)	-	(3,898)
Increase (Decrease) in:			
Accounts payable	(726)	-	(726)
Deferred revenue	(363)	-	(363)
	<u>14,738</u>	<u>5,491</u>	<u>20,229</u>
Net Cash Provided By (Used in) Operating Activities	<u>(13,814)</u>	<u>33,064</u>	<u>19,250</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Cash Provided By (Used In) Investing Activities	<u>-</u>	<u>-</u>	<u>-</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	(13,814)	33,064	19,250
Cash - beginning of year	<u>24,224</u>	<u>179,343</u>	<u>203,567</u>
Cash - end of year	<u>\$ 10,410</u>	<u>\$ 212,407</u>	<u>\$ 222,817</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, 2012. 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, 2012, 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, 2012 to April 30, 2013 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 \$ 212,407 at December 31, 2012, 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, 2012:

Equipment	\$	512,518
Furniture and Fixtures		<u>187,990</u>
Total		700,508
Less accumulated depreciation		<u>602,601</u>
Net Property and Equipment	\$	<u>97,907</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, 2012, 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 2012, rent expense totaled \$ 188,416 and management fees totaled \$ 100,000.

NOTE 6 – ACCOUNTS RECEIVABLE

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 \$ 414,512 for a total due to the Association of \$ 455,512 as of December 31, 2012.

NOTE 6 - ACCOUNTS RECEIVABLE (continued)

In addition, Goose Hollow Trust of 2005 has, in the past two years, accumulated fees arising from building permit violations plus accrued legal and interest. The total due as of December 31, 2012 was \$ 127,130.

Management has elected to cease accruing additional fees, legal and interest on the outstanding balances. Management, also, has made no adjustments to the financial statements to record the above balances due since collection of the balances are not assured beyond a reasonable doubt.

NOTE 7 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 28, 2013, the date in which the financial statements were available to be issued.