

Smugglers' Notch Homeowners' Association, Inc.

Financial Statements

**For the Years Ended
December 31, 2012 and 2011**

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Members of
Smugglers' Notch Homeowners' Association, Inc.
Jeffersonville, Vermont

We have audited the accompanying financial statements of **Smugglers' Notch Homeowners' Association, Inc.**, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in fund balances 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.

Auditors' 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 auditors' 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 **Smugglers' Notch Homeowners' Association, Inc.** as of December 31, 2012 and 2011, 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.

Management has omitted information on future major repairs and replacements of common property and the related reserves 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 operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.


Needham, Massachusetts
June 28, 2013

Smugglers' Notch Homeowners' Association, Inc.

Balance Sheets December 31, 2012 and 2011

	2012	2011
<i>Assets</i>		
Current assets		
Cash, including interest bearing deposits	\$ 33,433	\$ 41,071
Assessments receivable - net of allowance for doubtful accounts of \$75,376 and \$86,723, respectively	34,894	15,913
Other receivables	4,697	-
Inventory	1,127	2,428
Total current assets	74,151	59,412
Property and equipment		
Computer and office equipment	23,794	23,794
Accumulated depreciation	(23,644)	(22,354)
Property and equipment, net	150	1,440
Other assets		
Regime trust accounts	441,794	520,937
Rent deposits	600	600
Total other assets	442,394	521,537
Total assets	\$ 516,695	\$ 582,389
 <i>Liabilities and Members' Equity</i> 		
Liabilities		
Other payables	\$ 11,928	\$ 7,013
Insurance reserve	8,630	15,425
Due to regimes	441,794	520,937
Total liabilities	462,352	543,375
Members' equity	54,343	39,014
Total liabilities and members' equity	\$ 516,695	\$ 582,389

The accompanying notes are an integral part of these financial statements

Smugglers' Notch Homeowners' Association, Inc.

Statements of Operations and Changes in Members' Equity For the Years Ended December 31, 2012 and 2011

	2012	2011
Revenue		
Association dues and fees	\$ 104,650	\$ 205,892
Special projects	31,365	9,933
Project management	28,942	-
Planning and insurance	19,400	-
Other income	13,522	16,900
Accounting fees	13,253	-
Gas program service fees	5,425	-
	216,557	232,725
Operating expenses		
Payroll and benefits	114,855	107,512
Special projects expenses	29,656	9,239
Administrative and office expenses	26,501	29,789
Legal fees	11,563	8,614
Payroll taxes	10,576	9,742
Board and homeowners meetings	4,995	9,806
Depreciation and amortization	1,290	2,394
Professional fees	1,029	1,056
Bad debts	375	28,551
Taxes	250	275
Accounting fees	138	3,804
	201,228	210,782
Other income (expenses)		
Insurance premiums assessed	92,124	111,310
Insurance premiums paid	(92,124)	(111,310)
	15,329	21,943
Excess of revenue over expenses		
	39,014	17,071
Beginning members' equity		
Ending members' equity	\$ 54,343	\$ 39,014

The accompanying notes are an integral part of these financial statements

Smugglers' Notch Homeowners' Association, Inc.

Statements of Cash Flows For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Excess of revenues over expenses	\$ 15,329	\$ 21,943
Adjustments to reconcile excess of revenues over expense to net cash provided by (used in) operating activities		
Depreciation and amortization	1,290	2,394
Decreases (increases) in		
Assessments receivable	(18,981)	(15,913)
Other receivables	(4,697)	7,311
Inventory	1,301	20
Regime trust accounts	79,143	(69,137)
Increases (decreases) in		
Other payables	4,915	3,545
Insurance reserve	(6,795)	3,281
Due to regimes	(79,143)	69,137
Total adjustments	<u>(22,967)</u>	<u>638</u>
Net cash provided by (used in) operating activities	<u>(7,638)</u>	<u>22,581</u>
Net increase (decrease) in cash	(7,638)	22,581
Cash, beginning of year	<u>41,071</u>	<u>18,490</u>
Cash, end of year	<u>\$ 33,433</u>	<u>\$ 41,071</u>

Smugglers' Notch Homeowners' Association, Inc.

Notes to the Financial Statements For the Years Ended December 31, 2012 and 2011

1. Nature of Operations

Smugglers' Notch Homeowners' Association, Inc. (the "Association") was incorporated in 1969 in the state of Vermont. The Association is an umbrella homeowners association for individual homeowners associations identified as regimes located in the Village at Smugglers' Notch in Jeffersonville, Vermont.

The Association is responsible for obtaining insurance coverage of the full ownership buildings and assisting the full ownership regimes in managing their repairs and replacement funds for their common area properties.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Association recognizes revenue according to the terms of the negotiated agreements with the regimes. Such contracts specify either monthly or quarterly recognition of assessed fees. In 2011, dues were assessed across all homeowners in equal amounts. In 2012, a new agreement was agreed upon and instituted that charges basic fees for Association management, planning and insurance, accounting and gas program administration. The Association recognizes revenue on special projects as such services are performed.

For the year ending December 31, 2011, Association members were subject to yearly assessments consisting of dues to the Association and their ownership percentage of insurance premiums and repairs and replacement funds as budgeted by the individual regimes.

For the year ending December 31, 2012, Association members were subject to monthly or quarterly assessments consisting of basic fees such as membership, accounting and insurance fees. Other fees such as management of the gas program were charged as needed for such members participating in the program.

The Association organizes and oversees building maintenance and repair projects for individual regimes and homeowners called "Special Projects." Such projects that are paid by Association's funds are billed to the appropriate regime or homeowner. If the project is billed to the regime, the regime uses its replacement funds or separately assesses the regime homeowners or the amount due to the Association. Management fees for special projects are assessed and collected as the project progresses.

Other income includes advertising fees, late charges, and collections of prior year uncollected dues.

The Association has developed policies to provide for various collection remedies for delinquent assessments including the filing of liens.

Smugglers' Notch Homeowners' Association, Inc.

Notes to the Financial Statements For the Years Ended December 31, 2012 and 2011

2. Summary of Significant Accounting Policies (Continued)

Assessments Receivable

Assessments receivable are presented net of an allowance for doubtful accounts and consist of member dues assessments billed, but not collected. In determining this allowance, the Association reviews a historical pattern of collections and credit strength of its customers. As of December 31, 2012 and 2011, allowance for doubtful accounts was \$75,376 and \$86,723, respectively.

Other Receivables

The Association received a settlement on behalf of its homeowners in 2012 related to litigation totaling \$10,000. The settlement was held in escrow by the Association's legal representative. In accordance with the settlement agreement, the portion of the settlement remaining to be received at December 31, 2012 is \$4,697. There was no amount due related to this settlement as of June 28, 2013.

Property and Equipment

Property and equipment are stated at historical cost and depreciated using the straight-line method over the estimated lives of the related assets which range from three to seven years for equipment, software, furniture and fixtures. Repairs and maintenance costs are charged to operations as incurred.

Advertising

Advertising is expensed as incurred and included as a component of operating expenses. The Association incurred no advertising expense for the years ended December 31, 2012 and 2011.

Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended 2010, the Association was taxed as a regular corporation. The corporation's loss was carried forward to future years under the Internal Revenue Code Section 2711. For the year ended December 31, 2012 and 2011, the Association was taxed as a homeowners' association under Internal Revenue Code Section 528. Under that section, the Association excludes from taxation exempt function income which generally consists of revenue from assessments to owners. The Association is taxed at a rate of 30% on its net nonexempt function income, which includes investment income. For the years ended December 31, 2012 and 2011, there was no federal tax liability. For the years ended December 31, 2012 and 2011, there was a \$250 Tax to the Vermont Department of Taxes. There is no Vermont income tax under Code section 528.

The Association evaluates all significant tax positions in accordance with GAAP. As of December 31, 2012, the Association does not believe that it has taken any tax positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months. The Association's income tax returns are subject to examination by the appropriate taxing jurisdictions. As of December 31, 2012, the Association's income tax returns generally remain open for examination for three years from the date filed with each taxing jurisdiction.

Subsequent Events

The Association has evaluated all subsequent events through June 28, 2013, the date the financial statements were available to be issued.

Smugglers' Notch Homeowners' Association, Inc.

Notes to the Financial Statements For the Years Ended December 31, 2012 and 2011

3. Property and Equipment

Property and equipment at December 31, 2012 and 2011 consist of the following:

	2012	2011
Computer equipment and software	\$ 13,663	\$ 13,663
Office furniture and fixtures	10,131	10,131
	23,794	23,794
Accumulated depreciation	(23,644)	(22,354)
	\$ 150	\$ 1,440

Depreciation expense amounted to \$1,290 and \$2,394 for the years ended December 31, 2012 and 2011, respectively.

4. Regime Trust Accounts and Due to Regimes

The Association has custody of 18 regime bank accounts holding funds for future major repairs and replacements of the individual regimes' common properties. These accounts are interest-bearing checking accounts.

Following are the balances in these accounts at December 31,

	2012	2011
Commons	\$ 704	\$ 200
Countryside	2,015	329
Creekside	8,016	10,014
Hakone	52,693	56,822
Liftside	186,676	170,044
Mountainview (1-20)	26,620	78,908
Mountainview (21-28)	2,582	1,219
Mountainview (29-36)	556	789
Mountainview (37-44)	2,997	808
Nordland Villa	8,714	32,783
Poolside	36,162	29,314
Riverside I (49-60)	8,800	16,766
Riverside II (37-48)	11,172	13,817
Slopeside II	11,950	32,588
Sterling (1-10)	1,755	315
Telemark	11,220	1,778
Trailside 1-12	27,233	47,297
Villmarksauna	41,928	27,146
Total	\$ 441,794	\$ 520,937

Smugglers' Notch Homeowners' Association, Inc.

Notes to the Financial Statements For the Years Ended December 31, 2012 and 2011

4. Regime Trust Accounts and Due to Regimes (Continued)

The Association itself is not responsible for any common property, thus it does not have its own fund for future major repairs and replacements. With the assistance of the Association, the individual regimes have developed their own funding programs for future major repairs and replacements.

5. Related Parties

Smugglers' Notch Management Company has ownership interest in several of the units in the regimes and acts as the developer of condominium projects. Individual homeowners and regimes contract with Smugglers' Notch Management Company to perform various repairs, maintenance and operational services which are billed accordingly through homeowner accounts.

6. Operating Lease

The Association entered into a one year lease beginning June 15, 2009 for its office space. The rent is \$750 per month. Upon expiration, the agreement became a month-to-month agreement. Rent paid for the year ending December 31, 2012 and 2011 was \$9,000 and \$8,950, respectively.

7. Concentrations of Credit Risk

Financial instruments which potentially subject the Association to concentration of credit risk consist primarily of temporary cash investments and assessments receivable.

The Association has a potential concentration of credit risk in that it maintains deposits with a financial institution in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). The maximum deposit insurance amount is \$250,000 for interest bearing accounts, which is applied per depositor, per insured depository institution for each account ownership category. Non-interest bearing transaction deposit accounts are provided unlimited insurance coverage through December 31, 2012. At certain times during the year, cash balances may exceed FDIC limits.

8. Retirement Plan

The Association has a Simplified Employee Pension Plan which covers all employees. For 2012 and 2011, the Association did not contribute into the Simplified Employee Pension Plan.

9. Supplemental Disclosure of Cash Flow Information

During 2012 and 2011, there was no income tax or interest paid.