

**THE FAIRWAYS AT TORRINGTON
ASSOCIATION, INC.**

Financial Statements

December 31, 2011

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

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INDEPENDENT AUDITORS' REPORT

July 31, 2012

To the Board of Directors
The Fairways at Torrington Association, Inc.

We have audited the accompanying balance sheet of The Fairways at Torrington Association, Inc., as of December 31, 2011, and the related statement of revenue, expenses, and changes in fund balance and statement of cash flow 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These 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 The Fairways at Torrington Association, Inc., as of December 31, 2011, and the results of its operations and its cash flow for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The information included in schedule 1 - supplementary information on future major repairs and replacements on page 9 is not a required part of the basic financial statements of The Fairways at Torrington Association, Inc. but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Tomasetti, Kulas & Company, P.C.

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Balance Sheet
December 31, 2011

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 16,021	\$ 75,167	\$ 91,188
Certificate of deposit	-	27,434	27,434
Accounts receivable – net of allowance for doubtful accounts of \$ 363	5,845	-	5,845
Prepaid insurance	<u>34,419</u>	<u>-</u>	<u>34,419</u>
 Total assets	 <u>\$ 56,285</u>	 <u>\$ 102,601</u>	 <u>\$ 158,886</u>
 LIABILITIES AND FUND BALANCE (DEFICIT)			
Accounts payable	\$ 40,312	\$ -	\$ 40,312
Prepaid association fees	<u>8,824</u>	<u>-</u>	<u>8,824</u>
 Total liabilities	 49,136	 -	 49,136
 Fund balance	 <u>7,149</u>	 <u>102,601</u>	 <u>109,750</u>
 Total liabilities and fund balance	 <u>\$ 56,285</u>	 <u>\$ 102,601</u>	 <u>\$ 158,886</u>

The accompanying notes are an integral part of the financial statements.

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Statement of Revenue, Expenses, and Changes in Fund Balance

For the Year Ended December 31, 2011

	Operating Fund	Reserve Fund	Total
Revenue			
Association fee income	\$ 329,980	\$ 29,660	\$ 359,640
Special assessment	64,808	-	64,808
Garage fees	6,300	-	6,300
Late fees	3,874	-	3,874
Interest income	-	1,103	1,103
Total revenue	<u>404,962</u>	<u>30,763</u>	<u>435,725</u>
Expenses			
Management fees	29,866	-	29,866
Professional fees	3,910	-	3,910
Electricity	12,539	-	12,539
Water and sewer	959	-	959
Rubbish removal	8,572	-	8,572
Office expense	4,253	-	4,253
Insurance	59,945	-	59,945
Maintenance payroll	783	-	783
Maintenance payroll taxes	959	-	959
Fertilization	11,716	-	11,716
Snow removal	74,486	-	74,486
Landscaping	61,763	-	61,763
Hallway cleaning	2,393	-	2,393
Building maintenance	45,214	-	45,214
Lighting and fire alarm	3,120	-	3,120
Bad debt	(8,279)	-	(8,279)
Paving and drainage	65,123	86,498	151,621
Deck replacement	43,703	-	43,703
Extermination	388	-	388
Total expenses	<u>421,413</u>	<u>86,498</u>	<u>507,911</u>
Excess (deficit) of revenue over expenses	(16,451)	(55,735)	(72,186)
Fund balance, beginning of year	172,262	9,674	181,936
Transfer among funds	<u>(148,662)</u>	<u>148,662</u>	<u>-</u>
Fund balance, end of year	<u>\$ 7,149</u>	<u>\$ 102,601</u>	<u>\$ 109,750</u>

The accompanying notes are an integral part of the financial statements.

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Statement of Cash Flow

For the Year Ended December 31, 2011

	Operating Fund	Reserve Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Cash flows from operating activities:			
Association fee income collected	\$ 328,944	\$ 28,295	\$ 357,239
Special assessment collected	64,808	-	64,808
Garage fees collected	6,300	-	6,300
Late fees collected	3,874	-	3,874
Interest income received	-	1,103	1,103
Cash paid for expenditures	(419,433)	(86,498)	(505,931)
Income taxes paid	-	-	-
Interest paid	-	-	-
Net cash provided (used) by operating activities	<u>(15,507)</u>	<u>(57,100)</u>	<u>(72,607)</u>
Cash flows from financing activities:			
Interfund activity	15,734	(15,734)	-
Transfer among funds	<u>(148,662)</u>	<u>148,662</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>(132,928)</u>	<u>132,928</u>	<u>-</u>
Cash flows from investing activities:			
Acquisition of certificate of deposit	<u>-</u>	<u>(661)</u>	<u>(661)</u>
Change in cash and cash equivalents	(148,435)	75,167	(73,268)
Cash and cash equivalents, beginning of year	<u>164,456</u>	<u>-</u>	<u>164,456</u>
Cash and cash equivalents, end of year	<u>\$ 16,021</u>	<u>\$ 75,167</u>	<u>\$ 91,188</u>
Reconciliation of excess of revenue over expenses to net cash provided by operating activities:			
Excess (deficit) of revenue over expenses	\$ (16,451)	\$ (55,735)	\$ (72,186)
Changes in:			
Accounts receivable	(2,305)	385	(1,920)
Prepaid insurance	624	-	624
Accounts payable	7,621	-	7,621
Prepaid association fees	<u>(4,996)</u>	<u>(1,750)</u>	<u>(6,746)</u>
Net cash provided (used) by operating activities	<u>\$ (15,507)</u>	<u>\$ (57,100)</u>	<u>\$ (72,607)</u>

The accompanying notes are an integral part of the financial statements.

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2011

1. ORGANIZATION AND OPERATIONS

The Association was incorporated in 1985 under the Non-Stock Corporation Act of the State of Connecticut as a not-for-profit entity. The Association's membership comprises the owners of the one hundred sixty-two (162) units located on over twenty eight (28) acres in Torrington, Connecticut. The Association's documents provide that it operate and administer the condominium and maintain and protect the common areas.

The Association's financial affairs and daily operations are managed by an independent management company pursuant to a contractual agreement. The Board retains control over the savings account and other amounts which comprises its future major repairs and replacements fund.

The common areas, including grounds, etc., are owned by the individual unit owners with undivided interests as tenants in common. Accordingly, such common property is not recognized as an asset of the Association. However, the maintenance, upkeep, and other expenses associated with such common property is the responsibility of the Association.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The Association's financial statements are presented on the accrual basis using generally accepted accounting principles appropriate for condominium associations. Under this method, revenues have been recorded when earned and expenses when incurred rather than when collected or paid.

Improvements and additions to the real property and other common elements are not capitalized, since such improvements are considered common elements, which belong to unit owners rather than to the Association.

Assessments are fixed by the Board on an annual basis and charged to the individual unit owners on their proportionate share of common expenses as determined based on established criteria. Assessments paid by unit owners prior to due dates are recognized as a liability under the caption "prepaid association fees." Conversely, assessments charged, but uncollected by due dates, are recognized as an asset under the caption "accounts receivable."

Allowance for Doubtful Accounts

The Association makes, when necessary, a provision for possible uncollectible common fees and other charges.

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2011

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, continued

Income Taxes

The Association has elected to be treated as a tax exempt homeowners' association under Section 528 of the Internal Revenue Code. Accordingly, the Association's exempt function income is exempt from federal and state income taxation. Interest and other non-exempt function income, less expenses and deductions directly related to such non-exempt function income, are subject to federal income taxation at a statutory rate of thirty percent (30%). For the year ended December 31, 2011, the federal provision for income tax is \$ 0.

Cash and Cash Equivalents

Cash and cash equivalents consists of all checking accounts; interest bearing savings and money market accounts; and all certificates of deposit having a term of three months or less.

Use of 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 could differ from those estimates.

3. **FUND BALANCES**

Operating Fund

The balance in the fund is the accumulated excess of the Association's operating revenue over its expense.

Reserve Fund

The Association's governing documents require that funds be accumulated for future major repairs and replacements in a separate savings account.

The Association, in 2007, using estimates provided by Advanced Reserve Solutions, Inc., a consulting firm, projected the remaining useful lives and the replacement costs of the components of common property.

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2011

3. **FUND BALANCES**, continued

The Board of Directors has decided to place \$ 74,900 into the reserve fund in the 2012 budget for major repairs and replacements. Since actual expenditures may vary from estimated future expenditures and the variations may be material, amounts accumulated in the reserve fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, borrow funds or delay major repairs and replacements until funds are available.

During the current year, the Association contributed \$ 29,660 of member assessments to meet the future needs for major repairs and replacements, used \$ 86,498 to help with the cost of the paving project, and the operating fund transferred \$ 148,662 to the reserve fund.

4. **SPECIAL ASSESSMENT**

During the year ended December 31, 2011, the Association conducted a special assessment of \$ 64,808 to help to cover the cost of capital improvement projects related to deck replacement and paving. The unit owners are required to pay \$ 400 each with the following payment options: \$ 33 per month for twelve (12) months, \$ 50 per month over an eight (8) month period, or \$ 100 per month over a four (4) month period.

5. **DATE OF MANAGEMENT'S REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 31, 2012 the date that the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Schedule 1 - Supplementary Information on
Future Major Repairs and Replacements
December 31, 2011
(Unaudited)

In 2007, the Association, using estimates provided by Advanced Reserve Solutions, Inc., a consulting firm, projected the remaining useful lives and the replacement costs of the components of common property. The following table presents a summary of this analysis:

<u>Components</u>	<u>Estimated Remaining Lives (yrs)</u>	<u>Estimated Current Replacement Costs</u>
Streets	1-9	\$ 288,393
Roofs	0-9	310,700
Grounds	6-7	22,300
Interior	4-11	50,919
Exterior	2-19	428,420
Equipment	1	<u>25,580</u>
		<u>\$1,126,312</u>