

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

Financial Statements

December 31, 2013

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

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TOMASETTI, KULAS & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Fairways at Torrington Association, Inc., which comprises the balance sheet as of December 31, 2013, and the related statement of revenue, expenses, and changes in fund balance and statement of cash flow 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 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. 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 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 financial position of The Fairways at Torrington Association, Inc. as of December 31, 2013, 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.

Disclaimer of Opinion on Required Supplementary Information. Accounting principles generally accepted in the United States of America require that schedule 1 – supplementary information on future major repairs and replacements on page 9 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Tomasetti, Kulas & Company, P.C.

Hartford, Connecticut, December 2, 2014

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Balance Sheet
December 31, 2013

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 27,354	\$ 57,164	\$ 84,518
Certificate of deposit	-	27,907	27,907
Accounts receivable – net of allowance for doubtful accounts of \$ 427	10,637	-	10,637
Due from operating fund	-	5,769	5,769
Prepaid expenses	<u>29,176</u>	<u>-</u>	<u>29,176</u>
 Total assets	 <u>\$ 67,167</u>	 <u>\$ 90,840</u>	 <u>\$ 158,007</u>
 LIABILITIES AND FUND BALANCE			
Accounts payable	\$ 8,579	\$ -	\$ 8,579
Due to reserve fund	5,769	-	5,769
Prepaid association fees	<u>6,910</u>	<u>-</u>	<u>6,910</u>
 Total liabilities	 21,258	 -	 21,258
 Fund balance	 <u>45,909</u>	 <u>90,840</u>	 <u>136,749</u>
 Total liabilities and fund balance	 <u>\$ 67,167</u>	 <u>\$ 90,840</u>	 <u>\$ 158,007</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, 2013

	Operating Fund	Reserve Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Revenue			
Association fee income	\$ 319,575	\$ 69,225	\$ 388,800
Special assessment	77,760	-	77,760
Garage fees	6,105	-	6,105
Late fees	1,708	-	1,708
Interest income	-	422	422
Total revenue	<u>405,148</u>	<u>69,647</u>	<u>474,795</u>
Expenses			
Management fees	28,441	-	28,441
Professional fees	6,085	-	6,085
Electricity	12,238	-	12,238
Water and sewer	605	-	605
Rubbish removal	8,268	-	8,268
Office expense	4,177	20	4,197
Insurance	68,134	-	68,134
Fertilization	10,242	-	10,242
Snow removal	67,261	-	67,261
Landscaping	62,329	-	62,329
Landscape improvements	3,904	-	3,904
Fence repairs	-	11,645	11,645
Retaining wall repairs	21,203	68,532	89,735
Hallway cleaning	1,643	-	1,643
Shutter installation	5,098	-	5,098
Building maintenance	46,063	37,774	83,837
Lighting and fire alarm	2,176	-	2,176
Bad debt	14	-	14
Payroll & payroll expenses	3,593	-	3,593
Paving and drainage	1,448	40,386	41,834
Deck replacement	29,266	-	29,266
Total expenses	<u>382,188</u>	<u>158,357</u>	<u>540,545</u>
Excess (deficit) of revenue over expenses	22,960	(88,710)	(65,750)
Fund balance, beginning of year	24,509	177,990	202,499
Transfer among funds	(1,560)	1,560	-
Fund balance, end of year	<u>\$ 45,909</u>	<u>\$ 90,840</u>	<u>\$ 136,749</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, 2013

	Operating Fund	Reserve Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Cash flows from operating activities:			
Association fee income collected	\$ 307,909	\$ 69,225	\$ 377,134
Special assessment collected	77,760	-	77,760
Garage fees collected	6,105	-	6,105
Late fees collected	1,708	-	1,708
Interest income received	-	422	422
Cash paid for expenditures	(400,585)	(158,357)	(558,942)
Income taxes paid	-	-	-
Interest paid	-	-	-
Net cash provided (used) by operating activities	<u>(7,103)</u>	<u>(88,710)</u>	<u>(95,813)</u>
Cash flows from investing activities:			
Acquisition of certificate of deposit	<u>-</u>	<u>(225)</u>	<u>(225)</u>
Cash flows from financing activities:			
Interfund activity	5,769	(5,769)	-
Transfer among funds	<u>(1,560)</u>	<u>1,560</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>4,209</u>	<u>(4,209)</u>	<u>-</u>
Change in cash and cash equivalents	(2,894)	(93,144)	(96,038)
Cash and cash equivalents, beginning of year	<u>30,248</u>	<u>150,308</u>	<u>180,556</u>
Cash and cash equivalents, end of year	<u>\$ 27,354</u>	<u>\$ 57,164</u>	<u>\$ 84,518</u>
Reconciliation of excess of revenue over expenses to net cash provided by operating activities:			
Excess (deficit) of revenue over expenses	\$ 22,960	\$ (88,710)	\$ (65,750)
Changes in:			
Accounts receivable	(1,881)	-	(1,881)
Prepaid expenses	(21,471)	-	(21,471)
Accounts payable	3,060	-	3,060
Prepaid association fees	<u>(9,771)</u>	<u>-</u>	<u>(9,771)</u>
Net cash provided (used) by operating activities	<u>\$ (7,103)</u>	<u>\$ (88,710)</u>	<u>\$ (95,813)</u>

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

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2013

1. ORGANIZATION AND OPERATIONS

The Fairways at Torrington Association, Inc., “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, 2013

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, 2013, the federal provision for income tax is \$ 0.

The Association's tax filings are subject to audit by federal and state taxing authorities. The Association's federal income tax returns for the years ended 2011, 2012, and 2013 remain open to examination by the Internal Revenue Service; and state income tax returns for the years ended 2012 and 2013 are open to examination by the Connecticut Department of Revenue Service.

The Association has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

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.

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2013

3. **FUND BALANCES**, continued

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 and updated in 2012, 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 Board of Directors has decided to place \$ 66,915 into the reserve fund in the 2014 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 \$ 69,225 of member assessments to meet the future needs for major repairs and replacements. The Association used \$ 158,357 of the fund for office, fence & retaining wall repairs, building maintenance, and paving expenses. Additionally the operating fund transferred \$ 1,560 to the reserve fund and as of December 31, 2013 the operating fund owes the reserve fund \$ 5,769.

4. **SPECIAL ASSESSMENT**

During the year ended December 31, 2013, the Association conducted a special assessment of \$ 77,760 to help fund capital projects.

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

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through December 2, 2014 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, 2013
(Unaudited)

In 2007 and updated in 2012, 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	239,600
Grounds	0-7	102,300
Interior	4-11	50,919
Exterior	2-19	428,420
Guard rails	0	11,500
Equipment	2	<u>10,000</u>
		<u>\$1,131,132</u>