

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, 2016 and the related statement of revenue, expenses, and changes in fund balances and statement of 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.

Auditors' 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 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 The Fairways at Torrington Association, Inc., as of December 31, 2016 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 the 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, June 21, 2017

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Balance Sheet
December 31, 2016

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 17,109	\$ 259,253	\$ 276,362
Certificate of deposit	-	28,719	28,719
Accounts receivable – net of allowance for doubtful accounts of \$ -0-	6,911	-	6,911
Prepaid insurance	<u>17,281</u>	<u>-</u>	<u>17,281</u>
Total assets	<u>\$ 41,301</u>	<u>\$ 287,972</u>	<u>\$ 329,273</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 4,126	\$ -	\$ 4,126
Prepaid common charges	<u>975</u>	<u>-</u>	<u>975</u>
Total liabilities	5,101	-	5,101
Fund balances	<u>36,200</u>	<u>287,972</u>	<u>324,172</u>
Total liabilities and fund balances	<u>\$ 41,301</u>	<u>\$ 287,972</u>	<u>\$ 329,273</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 Balances
For the Year Ended December 31, 2016

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Revenue			
Common charges	\$ 397,092	\$ 69,468	\$ 466,560
Garage fees	6,120	-	6,120
Late fees	6,170	-	6,170
Interest income	68	795	863
Total revenue	<u>409,450</u>	<u>70,263</u>	<u>479,713</u>
Expenses			
Management fees	33,470	-	33,470
Water and sewer	1,915	-	1,915
Electricity	14,652	-	14,652
Insurance	65,202	-	65,202
Rubbish removal	7,771	-	7,771
Building maintenance	36,983	-	36,983
Lighting and fire alarm	3,243	-	3,243
Fertilization	12,045	-	12,045
Landscaping	55,734	-	55,734
Snow removal	70,000	-	70,000
Office expense	4,318	14	4,332
Professional fees	5,413	-	5,413
Bad debts	(560)	-	(560)
Capital improvement – deck wood repair	16,924	-	16,924
Capital improvement – paving/drainage	116,115	-	116,115
Capital improvement – sidewalk replacement	5,200	-	5,200
Capital improvement – stoop repairs	5,668	-	5,668
Capital improvement – landscaping	7,019	-	7,019
Total expenses	<u>461,112</u>	<u>14</u>	<u>461,126</u>
Excess (deficit) of revenue over expenses	(51,662)	70,249	18,587
Fund balances, beginning of year	<u>87,862</u>	<u>217,723</u>	<u>305,585</u>
Fund balances, end of year	<u>\$ 36,200</u>	<u>\$287,972</u>	<u>\$ 324,172</u>

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

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Statement of Cash Flows

For the Year Ended December 31, 2016

	Operating Fund	Reserve Fund	Total
Cash flows from operating activities:			
Common charges collected	\$ 400,571	\$ 69,468	\$ 470,039
Garage fees collected	6,120	-	6,120
Late fees collected	6,170	-	6,170
Interest income received	68	795	863
Cash paid for expenditures	(456,873)	(14)	(456,887)
Income tax paid	-	-	-
Interest paid	-	-	-
Net cash provided (used) by operating activities	<u>(43,944)</u>	<u>70,249</u>	<u>26,305</u>
 Cash flows from investing activities:			
Purchase of certificate of deposit	<u>-</u>	<u>(353)</u>	<u>(353)</u>
 Change in cash and cash equivalents	(43,944)	69,896	25,952
Cash and cash equivalents, beginning of year	<u>61,053</u>	<u>189,357</u>	<u>250,410</u>
Cash and cash equivalents, end of year	<u>\$ 17,109</u>	<u>\$ 259,253</u>	<u>\$ 276,362</u>
 Reconciliation of excess of revenue over to net cash provided by operating activities:			
Excess (deficit) of revenue over expenses	\$ (51,662)	\$ 70,249	\$ 18,587
Changes in:			
Accounts receivable	1,944	-	1,944
Insurance refund receivable	1,791	-	1,791
Prepaid insurance	266	-	266
Accounts payable	2,742	-	2,742
Prepaid common charges	975	-	975
Net cash provided (used) by operating activities	<u>\$ (43,944)</u>	<u>\$ 70,249</u>	<u>\$ 26,305</u>

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

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2016

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 common charges." Conversely, assessments charged, but uncollected by due dates, are recognized as an asset under the caption "accounts receivable."

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.

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Allowance for Doubtful Accounts

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

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, 2016, the provision for federal 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 calendar years ended 2014, 2015, and 2016 remain open to examination by the Internal Revenue Service; and state income tax returns for the calendar years ended 2014, 2015, and 2016 are open to examination by the Connecticut Department of Revenue Service.

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

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 this fund is the accumulated excess of the Association's revenue over its expense.

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2016

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 reserve fund account.

The Association is funding this reserve using a study prepared in in 2007 and updated in 2012, using estimates provided by Advanced Reserve Solutions, Inc., a consulting firm, estimated the remaining useful lives and the replacement costs of the components of common property.

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 \$ 69,468 of common charges to meet the future needs for major repairs and replacements and used \$ 14 for bank charges.

4. CREDIT RISK

At December 31, 2016, the Association had a balance at Liberty Bank of \$ 253,464 which exceeded the Federal Deposit Insurance Corporation (FDIC) limit of \$ 250,000 for both interest and non-interest bearing accounts. This meant that if Liberty Bank had any financial difficulties, the Association may have lost any money it had deposited over the \$ 250,000 limit; in this case it would have meant \$ 3,464.

5. DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated subsequent events and transactions for potential recognition or disclosure through June 21, 2017 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, 2016
(Unaudited)

In 2007, the Association, using a formal study provided by Advanced Reserve Solutions, Inc., a consulting firm, estimated the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated replacement costs were revised in 2012 but do not take into account the effects of market changes between the date of the study and the date that the components will require repair or replacement. The following table presents a summary of this analysis:

<u>Components</u>	<u>Estimated Remaining Lives (yrs)</u>	<u>Estimated 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>