

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Financial Statements
and
Supplementary Information

December 31, 2019

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.
Torrington, Connecticut

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, 2019 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, 2019 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 12 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, September 23, 2020

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Balance Sheet
December 31, 2019

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 41,519	\$ 348,790	\$ 390,309
Certificate of deposit	-	30,220	30,220
Accounts receivable – net of allowance for doubtful accounts of \$ -0-	17,161	-	17,161
Due from reserve fund	1,826	-	1,826
Other receivable	-	5,789	5,789
Prepaid insurance	<u>18,603</u>	<u>-</u>	<u>18,603</u>
Total assets	<u>\$ 79,109</u>	<u>\$ 384,799</u>	<u>\$ 463,908</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 21,392	\$ -	\$ 21,392
Due to operating fund	-	1,826	1,826
Contract liabilities (see Note 4)	-	382,973	382,973
Prepaid common charges	<u>23,188</u>	<u>-</u>	<u>23,188</u>
Total liabilities	44,580	384,799	429,379
Fund balances	<u>34,529</u>	<u>-</u>	<u>34,529</u>
Total liabilities and fund balances	<u>\$ 79,109</u>	<u>\$ 384,799</u>	<u>\$ 463,908</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, 2019

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Revenue			
Common charges	\$ 416,532	\$ 106,545	\$ 523,077
Garage fees	6,120	-	6,120
Late and other fees	4,116	-	4,116
Interest income	<u>32</u>	<u>1,548</u>	<u>1,580</u>
Total revenue	<u>426,800</u>	<u>108,093</u>	<u>534,893</u>
Expenses			
Management fees	34,800	-	34,800
Water and sewer	1,228	-	1,228
Electricity	11,909	-	11,909
Insurance	68,400	-	68,400
Rubbish removal	8,158	-	8,158
Building maintenance	53,921	-	53,921
Lighting and fire alarm	2,959	-	2,959
Fertilization	12,383	-	12,383
Landscaping	58,594	-	58,594
Landscaping – additional	26,605	-	26,605
Snow removal	81,899	-	81,899
Exterminating	1,462	-	1,462
Office expense	5,166	29	5,195
Professional fees	4,933	-	4,933
Capital improvement – roofing	-	4,200	4,200
Capital improvement – paving/drainage	13,200	81,865	95,065
Capital improvement – deck staining	-	4,004	4,004
Capital improvement – walkways repairs	-	13,395	13,395
Capital improvement – stoop repairs	<u>-</u>	<u>4,600</u>	<u>4,600</u>
Total expenses	<u>385,617</u>	<u>108,093</u>	<u>493,710</u>
Excess (deficit) of revenue over expenses	<u>41,183</u>	<u>-</u>	<u>41,183</u>
Fund balances (deficit), beginning of year	(6,654)	419,050	412,396
FASB ASC 606 Implementation (see Note 4)	<u>-</u>	<u>(419,050)</u>	<u>(419,050)</u>
Fund balances (deficit), beginning of year – restated	<u>(6,654)</u>	<u>-</u>	<u>(6,654)</u>
Fund balances, end of year	<u>\$ 34,529</u>	<u>\$ -</u>	<u>\$ 34,529</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, 2019

	Operating Fund	Reserve Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Cash flows from operating activities:			
Common charges collected	\$ 403,568	\$ 69,468	\$ 473,036
Capital contributions collected	-	1,000	1,000
Garage fees collected	6,120	-	6,120
Late and other fees collected	4,116	-	4,116
Interest income received	32	1,548	1,580
Cash paid for expenditures	(376,421)	(108,093)	(484,514)
Income tax paid	-	-	-
Interest paid	-	-	-
Net cash provided (used) by operating activities	<u>37,415</u>	<u>(36,077)</u>	<u>1,338</u>
 Cash flows from investing activities:			
Purchase of certificate of deposit	-	(592)	(592)
 Cash flows from financing activities:			
Interfund activity	<u>(13,405)</u>	<u>13,405</u>	<u>-</u>
 Change in cash and cash equivalents	24,010	(23,264)	746
Cash and cash equivalents, beginning of year	<u>17,509</u>	<u>372,054</u>	<u>389,563</u>
Cash and cash equivalents, end of year	<u>\$ 41,519</u>	<u>\$ 348,790</u>	<u>\$ 390,309</u>
 Reconciliation of excess of revenue over expenses to net cash provided by operating activities:			
Excess (deficit) of revenue over expenses	\$ 41,183	\$ -	\$ 41,183
Changes in:			
Accounts receivable	(11,875)	-	(11,875)
Prepaid insurance	338	-	338
Accounts payable	8,858	-	8,858
Contract liabilities (see Note 4)	-	(36,077)	(36,077)
Prepaid common charges	<u>(1,089)</u>	<u>-</u>	<u>(1,089)</u>
Net cash provided (used) by operating activities	<u>\$ 37,415</u>	<u>\$ (36,077)</u>	<u>\$ 1,338</u>

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

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2019

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 performance obligations are completed for revenue from contract with customers 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.

Cash and Cash Equivalentents

Cash and cash equivalentents 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, 2019

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, 2019, the provision for federal income tax is \$ 0.

As of the year end December 31, 2019, 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 2017, 2018, and 2019 remain open to examination by the Internal Revenue Service; and state income tax returns for the calendar years ended 2017, 2018, and 2019 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.

Contract Liabilities

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to reserve assessments. The balances of contract liabilities as of the beginning and end of the year are \$ 0 and \$ 382,973, for reserve assessments, respectively.

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessments are fixed by the Board of Directors on an annual basis and charged to the individual unit owners on their proportionate share of common expenses as determined based on established criteria.

Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the reserve fund assessments are satisfied when these funds are expended for their designated purpose and when approved by the Board of Directors. Operating and reserve member assessment revenues may be impacted by vacancies of units, concentrations of ownership, or lack of payment for assessed amounts. No revenue was recognized in the current period from performance obligations wholly or partially satisfied in a prior period.

Accounts receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments become delinquent. For the year ended December 31, 2019, no allowance for doubtful accounts is deemed necessary. The Association treats doubtful assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The balances of accounts receivable as of the beginning and end of the year are \$ 5,286 and \$ 17,161, respectively.

Assessments paid by unit owners prior to due dates are recognized as a liability under the caption "prepaid common charges." Any over payments of operating assessments are applied to future obligations or refunded upon request.

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, 2019

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 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. The Association recognized \$ 106,545 in revenue to match against completed performance obligations. The Association used \$ 108,093 of the fund for bank charges, roofing, deck staining, paving and drainage, walkways repairs, and stoop repair costs. As of December 31, 2019, the reserve fund owes the operating fund \$ 1,826.

4. **FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION**

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate—Common Interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association adopted the new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance.

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2019

4. FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION, continued

The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liabilities, as previously described.

The adoption of the new revenue recognition guidance resulted in the following change to fund balances as of January 1, 2019:

	Operating Fund	Reserve Fund
Fund balance, as previously reported, at January 1, 2019	\$ (6,654)	\$ 419,050
Adjustment	<u>-</u>	<u>(419,050)</u>
Fund balance, as adjusted, at January 1, 2019	<u>\$ (6,654)</u>	<u>\$ -</u>

The effect of the adoption is an increase in 2019 assessments by \$ 37,077 for the reserve fund, and recording of a contract liability as of December 31, 2019, of \$ 382,973 for the reserve fund. The Association has no customer contract modifications that had an effect on the Association's transition to the new guidance.

The modified retrospective method of transition requires us to disclose the effect of applying the new guidance on each item included in our 2019 financial statements. Following are the line items from our balance sheet as of December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance:

	<u>Amounts That Would Have Been Reported</u>	<u>Effects of Applying New Guidance</u>	<u>As Reported</u>
<u>Liabilities:</u>			
Contract liabilities	\$ -	\$ 382,973	\$ 382,973
Total liabilities	46,406	382,973	429,379
<u>Fund Balance:</u>			
Ending fund balances	417,502	(382,973)	34,529

THE FAIRWAYS AT TORRINGTON ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2019

4. FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION, continued

The following are the line items from the statement of revenue, expenses, and changes in fund balances and the statement of cash flows for the year ended December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the amounts reported under the new guidance:

	<u>Amounts That Would Have Been Reported</u>	<u>Effects of Applying New Guidance</u>	<u>As Reported</u>
<u>Revenue:</u>			
Common charges	\$ 486,000	\$ 37,077	\$ 523,077
Capital contributions	1,000	(1,000)	-
Excess (deficit) of revenue over expenses	5,106	36,077	41,183
<u>Cash Flows:</u>			
Excess (deficit) of revenue over expenses	5,106	36,077	41,183
Changes in contract liabilities	-	(36,077)	(36,077)

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 September 23, 2020 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, 2019

(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>