

SOUTH MILL VILLAGE ASSOCIATION, INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 AND 2008

SOUTH MILL VILLAGE ASSOCIATION, INC.

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SEPTEMBER 30, 2009 AND 2008

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CARNEY, ROY AND GERROL, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
South Mill Village Association, Inc.
South Glastonbury, Connecticut

We have audited the accompanying balance sheets of South Mill Village Association, Inc. as of September 30, 2009 and 2008, and the related statements of revenue, expense and changes in fund balances, comprehensive income, and cash flows for the years 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. Those 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 South Mill Village Association, Inc., as of September 30, 2009 and 2008, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of revenue, expense, and budget - operations on pages 10 and 11 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for the budgets marked "unaudited," on which we express no opinion, have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

South Mill Village Association, Inc. has not estimated the remaining useful lives and replacement costs of the common property and, therefore, has not presented supplementary information on future major repairs and replacements that accounting principles generally accepted in the United States of America has determined is required to supplement, although not required to be a part of, the basic financial statements.

Carney, Roy and Gerrol, P.C.

Rocky Hill, Connecticut
January 4, 2010

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SOUTH MILL VILLAGE ASSOCIATION, INC.

BALANCE SHEETS

SEPTEMBER 30, 2009 AND 2008

	Operating Fund	Replacement Fund	September 30, 2009 Total	September 30, 2008 Total
ASSETS				
Cash and cash equivalents	\$ 40,550	\$ 140,106	\$ 180,656	\$ 112,423
Investments	-	45,647	45,647	127,658
Accounts receivable - unit owners	384	-	384	665
Accounts receivable - special assessment	125	-	125	-
Interest receivable	-	143	143	-
Prepaid insurance	7,124	-	7,124	7,512
Due from replacement fund	-	-	-	302
Due from operating fund	-	5,658	5,658	-
	\$ 48,183	\$ 191,554	\$ 239,737	\$ 248,560
 LIABILITIES				
Accounts payable	\$ 10,839	\$ -	\$ 10,839	\$ 17,894
Accrued expenses	21,626	-	21,626	21,475
Insurance claim payable	-	-	-	2,077
Taxes payable	1,276	-	1,276	2,328
Unit owner fees paid in advance	8,784	-	8,784	7,448
Due to operating fund	-	-	-	302
Due to replacement fund	5,658	-	5,658	-
	48,183	-	48,183	51,524
 FUND BALANCES				
Accumulated excess of revenue over expense	-	190,907	190,907	199,316
Accumulated comprehensive gain (loss)	-	647	647	(2,280)
	\$ 48,183	\$ 191,554	\$ 239,737	\$ 248,560
Total Liabilities and Fund Balances	\$ 48,183	\$ 191,554	\$ 239,737	\$ 248,560

See accountant's report and accompanying notes.

SOUTH MILL VILLAGE ASSOCIATION, INC.
STATEMENTS OF REVENUE, EXPENSE AND CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	Operating Fund	Replacement Fund	Year Ended September 30, 2009 Total	Year Ended September 30, 2008 Total
REVENUE				
Common fees	\$ 300,132	\$ 79,992	\$ 380,124	\$ 379,511
Interest	-	5,635	5,635	9,126
Insurance claim revenue	-	-	-	4,282
Special assessment	31,680	-	31,680	-
Other	1,231	-	1,231	845
	<u>333,043</u>	<u>85,627</u>	<u>418,670</u>	<u>393,764</u>
EXPENSE				
Operating expenses	330,018	-	330,018	285,567
Painting	-	56,897	56,897	26,508
Concrete repair	-	16,193	16,193	-
Mailboxes and windows	-	-	-	21,950
Siding & trim	-	23,971	23,971	50,589
Insurance claim	-	-	-	4,436
	<u>330,018</u>	<u>97,061</u>	<u>427,079</u>	<u>389,050</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSE	3,025	(11,434)	(8,409)	4,714
Transfer of operating fund balance to replacement fund	(3,025)	3,025	-	-
FUND BALANCES - BEGINNING OF YEAR	<u>-</u>	<u>199,316</u>	<u>199,316</u>	<u>194,602</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ 190,907</u>	<u>\$ 190,907</u>	<u>\$ 199,316</u>

See accountant's report and accompanying notes.

SOUTH MILL VILLAGE ASSOCIATION, INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	Year Ended September 30, 2009 Total	Year Ended September 30, 2008 Total
Excess (deficiency) of revenue over expense	<u>\$ (8,409)</u>	<u>\$ 4,714</u>
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) from securities available for sale	<u>647</u>	<u>(2,280)</u>
Other comprehensive income (loss)	<u><u>\$ (7,762)</u></u>	<u><u>\$ 2,434</u></u>

See accountant's report and accompanying notes.

SOUTH MILL VILLAGE ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	Year Ended September 30, 2009 Total	Year Ended September 30, 2008 Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expense	\$ (8,409)	\$ 4,714
Adjustments to reconcile excess (deficiency) of revenue over expense to net cash used for operating activities:		
Unrealized gain /(loss)	2,927	(2,187)
Net change in cash resulting from increase (decrease) in assets and liabilities:		
Accounts receivable - unit owners	281	(226)
Accounts receivable - special assessment	(125)	-
Interest receivable	(143)	-
Insurance claim receivable	-	13,585
Prepaid insurance	388	(931)
Accounts payable	(7,055)	(55,564)
Accrued expenses	151	7,523
Insurance claim payable	(2,077)	(2,078)
Taxes payable	(1,052)	586
Unit owner fees paid in advance	1,336	2,696
	<u>(13,778)</u>	<u>(31,882)</u>
Net cash used for operating activities	(13,778)	(31,882)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(27,989)	(102,813)
Redemption of investments	110,000	85,000
	<u>82,011</u>	<u>(17,813)</u>
Net cash provided by (used for) investing activities	82,011	(17,813)
NET INCREASE (DECREASE) IN CASH	68,233	(49,695)
CASH AND CASH EQUIVALENTS - beginning of year	112,423	162,118
CASH AND CASH EQUIVALENTS - end of the year	\$ 180,656	\$ 112,423
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	<u>\$ 2,328</u>	<u>\$ 1,742</u>

See accountant's report and accompanying notes.

SOUTH MILL VILLAGE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 AND 2008

NOTE 1 - ORGANIZATION

South Mill Village Association, Inc. was originally incorporated in 1984 as a non-stock Connecticut corporation, not organized for profit. The association consists of 88 residential units, located in the Town of South Glastonbury, Connecticut. The Board of Directors and the association are responsible for the operation and maintenance of the common property of South Mill Village. The association funds its operating activities by fees and assessments collected from unit owners, the majority of whom reside in their units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

These financial statements are prepared on the accrual basis using accounting principles generally accepted in the United States of America and appropriate for condominium associations. Revenue is recorded when due and expenses are recorded when incurred. To ensure that the association observes any limitations or restrictions on the use of the financial resources, the financial records are kept using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - this fund is used to account for financial resources available for the general operations of the association.

Replacement Fund - this fund is used to account for financial resources designated for future scheduled periodic maintenance, major repairs and replacements, landscape improvements, and unforeseen expenses as determined by the Board of Directors.

Capitalization Policy

Consistent with industry practice, the association has not capitalized common property since it does not have title and control over disposition. Common property and any related additions or improvements are owned by the individual unit owners in common and not by the association.

NOTE 3 - USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates may affect 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.

NOTE 4 - MEMBER ASSESSMENTS

Association members are assessed monthly common charges to provide funds for the current operations and future needs of the association. Accounts receivable include any related late charges or collection fees. Prepaid common charges appear as a liability. The association has a policy to provide for the possible uncollectibility of common fees and other charges which are more than six months overdue at the balance sheet date. There are no such overdue accounts at September 30, 2009 or September 30, 2008.

SOUTH MILL VILLAGE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 AND 2008

NOTE 5 - SPECIAL ASSESSMENT

During the year ended September 30, 2009, the association approved a special assessment of \$31,680 to help pay for snow removal costs. The assessment is \$360 per unit and is payable either in full due June 2009 or in three monthly installments of \$120 due June, July and August 2009.

NOTE 6 - CASH AND CASH EQUIVALENTS

For purposes of the cash flow statement, the association considers cash to be checking and savings accounts. Cash equivalents are highly liquid investments with maturities of less than or equal to 91 days.

NOTE 7 - INVESTMENTS

Investments are certificates of deposit or government bonds with maturities in excess of 91 days and are classified as available for sale.

At September 30, 2009, investments consist of:

	Cost Basis	Unrealized Holding Gains	Unrealized Holding Losses	Market Value (Significant Other Observable Inputs - Level 2)
Certificates of deposit:				
Maturities ≤ 1 year	\$25,000	\$ 7	\$ -	\$25,007
Maturities > 5 years	<u>20,000</u>	<u>640</u>	<u>-</u>	<u>20,640</u>
	<u>\$45,000</u>	<u>\$647</u>	<u>\$ -</u>	<u>\$45,647</u>

At September 30, 2008, investments consist of:

	Cost Basis	Unrealized Holding Gains	Unrealized Holding Losses	Market Value (Significant Other Observable Inputs - Level 2)
U.S. Government bonds:				
Maturities > 5 years	\$ 49,938	\$ -	\$ (370)	\$ 49,568
Certificates of deposit:				
Maturities ≤ 1 year	60,000	-	(110)	59,890
Maturities > 5 years	<u>20,000</u>	<u>-</u>	<u>(1,800)</u>	<u>18,200</u>
	<u>\$129,938</u>	<u>\$ -</u>	<u>\$(2,280)</u>	<u>\$127,658</u>

The association sold available for sale securities in the amount of \$110,000 and \$85,000 for the years ended September 30, 2009 and 2008, respectively. Gross realized gains of \$63 are included in interest income in the financial statements for the year ended September 30, 2009. There were no gross realized gains or losses for the year ended September 30, 2008.

SOUTH MILL VILLAGE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 AND 2008

NOTE 7 - INVESTMENTS - *Continued*

For other comprehensive income purposes, the unrealized gain from available for sale securities is \$647 at September 30, 2009. The unrealized loss from available for sale securities was \$2,280 at September 30, 2008. Assuming an effective tax rate of 30% for the condominium association, the potential tax liability of any realized gain would be \$194 for the year ended September 30, 2009. The potential tax benefit of any realized loss would be \$684 for the year ended September 30, 2008. No adjustment has been made for the potential tax liability or benefit, as it may not be realized since it is dependent on future earnings, if any, the timing and amount of which is uncertain. Accordingly, a valuation allowance has been established to reflect these uncertainties.

NOTE 8 - PROPERTY AND EQUIPMENT

The association has the responsibility to maintain and preserve the common property, whether or not capitalized. Common property not capitalized consists of building exteriors, roofs, decks, driveways and walkways, utility systems and grounds.

NOTE 9 - INCOME TAXES

For the years ended September 30, 2009 and 2008, the association has elected to be treated as a qualified homeowners association, according to Section 528 of the Internal Revenue Code. Under this section, the association is taxed on certain net income which derives from sources outside the association, such as interest. Common charges received from owners and used for association expenses are generally exempt from taxation. When the association elects this filing status, no taxes are due to the State of Connecticut, although an information return must be filed. Federal tax liability is \$1,276 and \$2,328 for the years ended September 30, 2009 and 2008, respectively.

The association has elected to defer the application of generally accepted accounting principles requirements for the accounting of uncertain tax positions. The association uses a loss contingencies approach under generally accepted accounting principles for evaluating uncertain tax positions. The association continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

NOTE 10 - ASSOCIATION MANAGEMENT

The association cancelled its contract with Imagineers, LLC as of March 31, 2008 and is currently being managed by Advance Property Management. The contract with Advance Property Management is through March 31, 2010 and will renew for a one-year term in April 2010. The agreement may be terminated upon not less than 60 days prior written notice. The management company provides supervision, maintenance and accounting functions for the association, including monthly financial reports and services to maintain the common property of the association in accordance with the association's budget, or as requested by the Board of Directors. The monthly management fee is \$1,501, including applicable sales tax.

The association paid Advance Property Management approximately \$39,000 for maintenance services for the year ended September 30, 2009. The association paid Imagineers, LLC and Advance Property Management approximately \$17,800 and \$90,400, respectively, for maintenance services for the year ended September 30, 2008.

SOUTH MILL VILLAGE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 AND 2008

NOTE 11 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The association's governing documents suggest but do not require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate cash accounts and generally are not available for expenditures in normal operations but, at the discretion of the Board, may be used to fund current operations.

The board of directors is currently developing a comprehensive major repair and replacement study to determine the appropriate reserve fund contributions and the level of reserves. The Board is satisfied that the reserves are functioning to pre-fund significant expenses and wants to consider options beyond the requirements of the association's documents. In 2009 and 2008, the contributions to the replacement fund were \$79,992 and \$79,993, respectively.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement 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 authorize borrowing, increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

NOTE 12 – RELATED PARTY – SOUTH MILL VILLAGE ASSOCIATION PHASE IV

The association has shared water expenses with South Mill Village Association Phase IV. At September 30, 2009, the amount due to Phase IV from the association is \$5,846. This amount is included in accrued expenses in the financial statements.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The association has ongoing contracts for landscaping and snow removal which extend beyond the September 30, 2009 year end. The landscaping contract is for the period March 15, 2009 to December 15, 2010. The contract for the 2009 and 2010 landscaping seasons is \$65,357 plus applicable sales taxes. The 2009-2010 snow contract is billed on a per storm basis.

The sewer usage expense of \$13,745 and \$16,409 for 2009 and 2008, respectively, represents the annual town sewer bill on a fiscal year from July 1st through June 30th. An accrual of \$13,745 has been made to estimate sewer costs for the period September 30, 2008 to June 30, 2009. The annual cost is a reasonable estimate for each year; therefore no timing adjustments have been made to reflect a liability for three months ended September 30.

NOTE 14 – SUBSEQUENT EVENTS

The association has evaluated subsequent events through January 4, 2010, which is the date the financial statements were available to be issued. There are no material subsequent events which require recognition or disclosure.

ADDITIONAL INFORMATION

SOUTH MILL VILLAGE ASSOCIATION, INC.
SCHEDULES OF REVENUE, EXPENSE AND BUDGET - OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Actual	Budget (Unaudited)
REVENUE		
Common fees	\$ 380,124	\$ 380,417
Special assessment	31,680	-
Other	1,231	-
	<u>413,035</u>	<u>380,417</u>
EXPENSE		
Management fee	18,013	18,000
Legal fees	5,558	2,000
Accounting fees	3,800	3,700
Electricity	4,881	4,500
Water	12,875	20,000
Sewer	13,745	15,000
Trash removal	23,534	23,500
Miscellaneous administration	3,799	3,500
Master insurance policy	27,100	30,000
General grounds maintenance	24,775	23,225
Snow removal	62,733	34,000
Landscaping	71,325	69,300
Landscape improvements	3,159	-
Building maintenance	53,445	50,000
Taxes	1,276	1,200
Insurance claim expense	-	2,500
	<u>330,018</u>	<u>300,425</u>
Total operating expense	330,018	300,425
Budgeted contributions to reserves	79,992	79,992
	<u>410,010</u>	<u>380,417</u>
Total expense	410,010	380,417
EXCESS OF REVENUE OVER EXPENSE	<u>\$ 3,025</u>	<u>\$ -</u>

See accountant's report and accompanying notes.

SOUTH MILL VILLAGE ASSOCIATION, INC.
SCHEDULES OF REVENUE, EXPENSE AND BUDGET - OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Actual	Budget (Unaudited)
REVENUE		
Common fees	\$ 379,511	\$ 379,652
Interest income	-	7,000
Insurance claim revenue	4,282	-
Other	845	-
	<u>384,638</u>	<u>386,652</u>
EXPENSE		
Management fee	17,914	18,000
Legal fees	1,950	2,500
Accounting fees	3,700	3,000
Electricity	4,529	4,400
Water	20,276	19,200
Sewer	16,409	15,000
Trash removal	25,556	24,000
Statement fee	70	-
Miscellaneous administration	4,029	3,000
Master insurance policy	28,839	28,000
General grounds maintenance	24,198	10,000
Snow removal	38,735	40,000
Landscaping	61,561	70,260
Landscape improvements	-	15,000
Building maintenance	34,623	50,000
Taxes	2,328	1,800
Painting	850	-
Insurance claim expense	4,436	2,500
	<u>290,003</u>	<u>306,660</u>
Total operating expense	290,003	306,660
Budgeted contributions to reserves	79,993	79,992
	<u>369,996</u>	<u>386,652</u>
Total expense	369,996	386,652
EXCESS OF REVENUE OVER EXPENSE	\$ 14,642	\$ -

See accountant's report and accompanying notes.