

**SOUTH MILL VILLAGE ASSOCIATION, INC.**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2007 AND 2006**

**SOUTH MILL VILLAGE ASSOCIATION, INC.**

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**SEPTEMBER 30, 2007 AND 2006**

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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, 2007 and 2006, 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., at September 30, 2007 and 2006, 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 additional information on pages 9 and 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the budget marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note 9, the association 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. Accounting principles generally accepted in the United States of America require that this information should supplement, though it is not required to be a part of, the basic financial statements.

Rocky Hill, Connecticut  
January 15, 2008

**SOUTH MILL VILLAGE ASSOCIATION, INC.**

**BALANCE SHEETS**

SEPTEMBER 30, 2007 AND 2006

	Operating Fund	Replacement Fund	September 30, 2007 Total	September 30, 2006 Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 64,227	\$ 97,891	\$ 162,118	\$ 122,444
Investments	-	109,845	109,845	49,256
Accounts receivable - unit owners	439	-	439	641
Insurance claim receivable	13,585	-	13,585	-
Prepaid insurance	6,581	-	6,581	7,023
Due from replacement fund	13,227	-	13,227	9,785
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Assets</b>	<b><u>\$ 98,059</u></b>	<b><u>\$ 207,736</u></b>	<b><u>\$ 305,795</u></b>	<b><u>\$ 189,149</u></b>
 <b>LIABILITIES</b>				
Accounts payable	\$ 73,458	\$ -	\$ 73,458	\$ 20,553
Accrued expenses	13,952	-	13,952	12,000
Insurance claim payable	4,155	-	4,155	-
Taxes payable	1,742	-	1,742	1,051
Unit owner fees paid in advance	4,752	-	4,752	8,927
Due to operating fund	-	13,227	13,227	9,785
	<hr/>	<hr/>	<hr/>	<hr/>
	98,059	13,227	111,286	52,316
 <b>FUND BALANCES</b>				
Accumulated excess of revenue over expense	-	194,602	194,602	137,516
Accumulated comprehensive loss	-	(93)	(93)	(683)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 98,059</u></b>	<b><u>\$ 207,736</u></b>	<b><u>\$ 305,795</u></b>	<b><u>\$ 189,149</u></b>

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, 2007 AND 2006**

	Operating Fund	Replacement Fund	Year Ended September 30, 2007 Total	Year Ended September 30, 2006 Total
<b>REVENUE</b>				
Common fees	\$ 291,643	\$ 79,992	\$ 371,635	\$ 351,797
Interest	7,067	-	7,067	4,747
Insurance claim revenue	20,691	-	20,691	-
Other	400	-	400	1,134
	<u>319,801</u>	<u>79,992</u>	<u>399,793</u>	<u>357,678</u>
<b>EXPENSE</b>				
Operating expenses	269,469	-	269,469	272,235
Painting	2,243	47,160	49,403	73,416
Mailboxes	-	1,163	1,163	-
Insurance claim	22,672	-	22,672	5,000
	<u>294,384</u>	<u>48,323</u>	<u>342,707</u>	<u>350,651</u>
<b>EXCESS OF REVENUE OVER EXPENSE</b>	25,417	31,669	57,086	7,027
<b>Transfer of operating fund balance to replacement fund</b>	(6,287)	6,287	-	-
<b>FUND BALANCES (DEFICIT) - BEGINNING OF YEAR</b>	<u>(19,130)</u>	<u>156,646</u>	<u>137,516</u>	<u>130,489</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ -</u>	<u>\$ 194,602</u>	<u>\$ 194,602</u>	<u>\$ 137,516</u>

See accountant's report and accompanying notes.

**SOUTH MILL VILLAGE ASSOCIATION, INC.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006**

	<b>Year Ended September 30, 2007 Total</b>	<b>Year Ended September 30, 2006 Total</b>
Excess of revenue over expense	<u>\$ 57,086</u>	<u>\$ 7,027</u>
<b>Other comprehensive income, net of tax:</b>		
Unrealized gain (loss) from securities available for sale	<u>(65)</u>	<u>(478)</u>
<b>Other comprehensive income</b>	<u><u>\$ 57,021</u></u>	<u><u>\$ 6,549</u></u>

See accountant's report and accompanying notes.

**SOUTH MILL VILLAGE ASSOCIATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006**

	<b>Year Ended September 30, 2007 Total</b>	<b>Year Ended September 30, 2006 Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess of revenue over expense	\$ 57,086	\$ 7,027
Adjustments to reconcile excess of revenue over expense to net cash provided by (used for) operating activities:		
Unrealized gain /(loss)	590	84
Net change in cash resulting from increase (decrease) in assets and liabilities:		
Accounts receivable	202	2,873
Insurance claim receivable	(13,585)	-
Prepaid insurance	442	(50)
Accounts payable	52,905	(8,870)
Accrued expenses	1,952	1,000
Insurance claim payable	4,155	-
Taxes payable	691	273
Unit owner fees paid in advance	<u>(4,175)</u>	<u>(3,075)</u>
<b>Net cash provided by (used for) operating activities</b>	<u>100,263</u>	<u>(738)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(60,589)	(424)
Redemption of investments	<u>-</u>	<u>32,401</u>
<b>Net cash provided by (used for) investing activities</b>	<u>(60,589)</u>	<u>31,977</u>
<b>NET INCREASE IN CASH</b>	39,674	31,239
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<u>122,444</u>	<u>91,205</u>
<b>CASH AND CASH EQUIVALENTS - end of the year</b>	<u>\$ 162,118</u>	<u>\$ 122,444</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Income taxes paid	<u>\$ 1,051</u>	<u>\$ 778</u>

See accountant's report and accompanying notes.

**SOUTH MILL VILLAGE ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2007 AND 2006**

**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, 2007 or September 30, 2006.



**SOUTH MILL VILLAGE ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2007 AND 2006**

**NOTE 5 - 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 91 days. Investments are certificates of deposit or government bonds with maturities in excess of 91 days. Account balances at Sovereign Bank are \$126,982 at September 30, 2007, which is in excess of the FDIC insured amount of \$100,000.

Investments consist of:

	<u>September 30, 2007</u>		
	Cost	Market Value	Unrealized Gain (Loss)
Certificate of deposits	\$60,000	\$59,990	\$ (10)
Government bonds	<u>49,938</u>	<u>49,855</u>	<u>(83)</u>
	<u>\$109,938</u>	<u>\$109,845</u>	<u>\$(93)</u>

  

	<u>September 30, 2006</u>		
	Cost	Market Value	Unrealized Gain (Loss)
Government bonds	<u>\$49,939</u>	<u>\$49,256</u>	<u>\$(683)</u>

For other comprehensive income purposes, the unrealized loss from available for sale securities is \$93 and \$683 for the years ended September 30, 2007 and 2006, respectively. Assuming an effective tax rate of 30% for the condominium association, the potential tax benefit of any realized loss would be \$28 and \$205 respectively. No adjustment has been made for the potential tax benefit, as it may not be realized.

**NOTE 6 - 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 7 - INCOME TAXES**

For the years ended September 30, 2007 and 2006, 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 for the years ended September 30, 2007 and 2006 is \$1,742 and \$1,051, respectively.

**SOUTH MILL VILLAGE ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2007 AND 2006**

**NOTE 8 - ASSOCIATION MANAGEMENT**

The association has a contract with Imagineers, LLC to provide supervision, maintenance and accounting functions for the association. The management company provides monthly financial reports, as well as 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 current monthly management fee is \$1,481. The association paid Imagineers approximately \$9,000 for maintenance services for the year ended September 30, 2007.

**NOTE 9 - 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 2007 and 2006, the contributions to the replacement fund were \$79,992 and \$70,008 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 10 - COMMITMENTS AND CONTINGENCIES**

The association has ongoing contracts for landscaping and snow removal which extend beyond the September 30, 2007 year end.

The sewer usage expense of \$14,847 and \$16,978 for 2007 and 2006, respectively, represents the annual town sewer bill on a fiscal year from July 1<sup>st</sup> through June 30<sup>th</sup>. An accrual of \$13,952 has been made to estimate sewer costs for the period September 30, 2006 to June 30, 2007. 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.

The association has hired legal counsel to assist it with respect to insurance claims relating to damage to units that resulted from the extension of South Mill Drive.

**ADDITIONAL INFORMATION**

**SOUTH MILL VILLAGE ASSOCIATION, INC.**  
**SCHEDULES OF REVENUE, EXPENSE AND BUDGET - OPERATIONS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	<b>Actual</b>	<b>Budget (Unaudited)</b>
<b>REVENUE</b>		
Common fees	\$ 371,635	\$ 371,660
Interest income	7,067	5,000
Insurance claim revenue	20,691	-
Other	400	-
	<u>399,793</u>	<u>376,660</u>
<b>EXPENSE</b>		
Management fee	17,813	18,000
Legal fees	1,453	10,000
Accounting fees	2,700	3,000
Electricity	5,116	4,000
Water	20,121	16,500
Sewer	14,847	16,000
Trash removal	23,583	24,000
Statement fee	130	-
Miscellaneous administration	3,637	3,000
Master insurance policy	28,733	27,000
General grounds maintenance	10,068	8,400
Snow removal	25,312	40,000
Landscaping	70,396	70,260
Landscape improvements	14,805	15,000
Building maintenance	29,013	40,000
Taxes	1,742	1,500
Painting	2,243	-
Insurance claim expense	22,672	-
	<u>294,384</u>	<u>296,660</u>
<b>Total operating expense</b>	<b>294,384</b>	<b>296,660</b>
Budgeted contributions to reserves	79,992	80,000
	<u>374,376</u>	<u>376,660</u>
<b>Total expense</b>	<b>374,376</b>	<b>376,660</b>
<b>EXCESS OF REVENUE OVER EXPENSE</b>	<b>\$ 25,417</b>	<b>\$ -</b>

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, 2006**

	<b>Actual</b>	<b>Budget (Unaudited)</b>
<b>REVENUE</b>		
Common fees	\$ 351,797	\$ 351,800
Interest income	4,747	5,500
Other	1,134	-
	<u>357,678</u>	<u>357,300</u>
<b>EXPENSE</b>		
Electricity	3,907	4,000
Water	12,638	16,500
Sewer usage	16,978	17,000
Insurance	27,907	28,000
Refuse removal	22,774	24,000
Management fee	17,767	18,000
Accounting	2,550	3,000
Grounds maintenance - other routine	5,758	-
Grounds maintenance - project	2,107	27,000
Grounds maintenance	58,863	65,000
Snow removal	41,669	35,000
Office	2,104	3,500
Taxes	1,051	1,500
Legal	6,355	17,000
Building maintenance	49,807	27,800
Insurance claim expense	5,000	-
	<u>277,235</u>	<u>287,300</u>
<b>Total operating expense</b>	<b>277,235</b>	<b>287,300</b>
Budgeted contributions to reserves	70,008	70,000
	<u>347,243</u>	<u>357,300</u>
<b>Total expense</b>	<b>347,243</b>	<b>357,300</b>
<b>EXCESS OF REVENUE OVER EXPENSE</b>	<b><u>\$ 10,435</u></b>	<b><u>\$ -</u></b>

See accountant's report and accompanying notes.