

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION

Financial Statements

March 31, 2010

Together With Accountant's Review Report

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION

Year Ended March 31, 2010

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To the Board of Directors of  
Farrwood Green II Condominium Association:

I have reviewed the accompanying balance sheet of Farrwood Green II Condominium Association (a Massachusetts Condominium Association) as of March 31, 2010 and the related statements of revenues, expenses and fund balance and cash flows for the year then ended in accordance with Statements on Standards For Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Farrwood Green II Condominium Association

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion.

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The supplementary information about future major repairs and replacements on Page 12 is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. I have compiled the supplementary information from information that is the representation of the management of Farrwood Green II Condominium Association without audit or review. Accordingly, I do not express an opinion or any other form of assurance on the supplementary information.

My review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. The information included in the accompanying schedule of common operations and administrative expense on page 11 is presented only for supplementary analysis purposes. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and I am not aware of any material modifications that should be made thereto.

May 3, 2010

Farrwood Green II Condominium Association  
Balance Sheet  
March 31, 2010  
(See Accountant's Review Report)

ASSETS

	<u>Operating Fund</u>	<u>Replacement Reserve Fund</u>	<u>Total</u>
Cash	\$318,445	\$102,576	\$421,021
Cash equivalents	0	191,889	191,889
Accounts receivable	20,834	0	20,834
Loan origination fees- net	2,043	0	2,043
Prepaid expenses	9,807	0	9,807
	<u>9,807</u>	<u>0</u>	<u>9,807</u>
<u>Total Assets</u>	<u>\$351,129</u>	<u>\$294,465</u>	<u>\$645,594</u>

LIABILITIES AND FUND BALANCES

Accounts payable	\$4,860	\$0	\$4,860
Note payable	287,961	0	287,961
Prepaid assessments	6,560	0	6,560
	<u>6,560</u>	<u>0</u>	<u>6,560</u>
<u>Total Liabilities</u>	<u>299,381</u>	<u>0</u>	<u>299,381</u>
<u>Fund Balance</u>	<u>51,748</u>	<u>294,465</u>	<u>346,213</u>
<u>Total Liabilities and Fund Balances</u>	<u>\$351,129</u>	<u>\$294,465</u>	<u>\$645,594</u>

See accompanying notes to financial statement.

Farrwood Green II Condominium Association  
Statement of Revenues, Expenses and Fund Balance  
For the year ended March 31, 2010  
(See Accountant's Review Report)

Common fees and assessments	\$247,492	\$18,000	\$265,492
Late charges and fees	1,538	0	1,538
Interest income	<u>1,385</u>	<u>5,418</u>	<u>6,803</u>
<u>Total Revenues</u>	<u>250,415</u>	<u>23,418</u>	<u>273,833</u>
<u>Expenses:</u>			
Common operations	194,332	0	194,332
Administrative	59,272	75	59,347
Interest expense	7,146	0	7,146
Income taxes	<u>613</u>	<u>0</u>	<u>613</u>
<u>Total Expenses</u>	<u>261,363</u>	<u>75</u>	<u>261,438</u>
<u>Excess (Deficiency) of Revenues Over Expenses</u>	(10,948)	23,343	12,395
<u>Fund Balance</u>			
<u>April 1, 2009</u>	<u>62,696</u>	<u>271,122</u>	<u>333,818</u>
<u>Fund Balance</u>			
<u>March 31, 2010</u>	<u>51,748</u>	<u>294,465</u>	<u>346,213</u>

See accompanying notes to financial statement.

Farrwood Green II Condominium Association  
Statement of Cash Flows  
For the year ended March 31, 2010  
(See Accountant's Review Report)

Cash Flows from Operating Activities

<u>Excess (Deficiency) of Revenues</u> <u>Over Expenses</u>	\$12,395
Adjustment to reconcile excess (deficiency) of revenues over expense to cash provided by operating activities:	
Amortization	112
Change in Assets and Liabilities:	
(Increase) Decrease in accounts receivable	26,147
(Increase) Decrease in prepaid expenses	(4,882)
(Increase) Decrease in loan origination fees	(2,155)
Increase (Decrease) in accounts payable	1,076
Increase (Decrease) in prepaid assessments	250
Increase (Decrease) in accrued taxes	<u>(2,600)</u>
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>30,343</u>
<u>Cash Provided (Used) By Financing Activities:</u>	
Proceeds from note payable	300,000
Payments on long term debt	<u>(12,039)</u>
<u>Net Cash Provided (Used) by Financing Activities</u>	<u>287,961</u>
<u>Net Increase (Decrease) in cash</u>	318,304
<u>Cash and Cash Equivalents at Beginning of Year</u>	<u>294,606</u>
<u>Cash and Cash Equivalents at End of Year</u>	<u>\$612,910</u>

See accompanying note to financial statement

Farrwood Green II Condominium Association  
Statement of Cash Flows  
For the year ended March 31, 2010  
(See Accountants Review Report)

Supplemental disclosures for cash  
flows information

Cash paid during the year for:

Interest	\$7,146
Income taxes	6,454

See accompanying notes to financial statement.

Farrwood Green II Condominium Association  
Notes to Financial Statements  
For the year ended March 31, 2010  
(See Accountant's Review Report)

(1) Organization

Farrwood Green II Condominium Association was organized on April 1, 1982 as a Massachusetts Condominium Association.

Nature of Operations

The Association is primarily engaged in the management, maintenance and operations of Farrwood Green II Condominium Association located in Haverhill Massachusetts. The condominium consists of 128 residential housing units.

(2) Significant Accounting Policies

To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts 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 Reserve Fund

This fund is used to accumulate financial resources designated for future major repairs and replacements.

Investments

The Association classifies its marketable debt securities as held to maturity if it has the positive intent and ability to hold the securities to maturity. Securities classified as held to maturity are carried at cost. Securities which are not classified as held to maturity nor held principally for sale in the near future are classified as available for sale. These securities are carried at fair market value with any unrealized gain/loss shown as a separate component of equity.

Farrwood Green II Condominium Association  
Notes to Financial Statements  
For the year ended March 31, 2010  
(See Accountant's Review Report)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Subsequent Events

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 3, 2010, the date the financial statements were available to be issued.

Property, Plant and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not reflected on the Association's financial statements. Those properties are owned by the individual unit owners in common and not by the Association.

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners.

Use of Estimates

The preparation of the 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 the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Loan Origination Fees

Loan origination fees are being amortized on a straight line basis over the term of the loan (eight years). Amortization expense for the year is \$112. Accumulated amortization as of March 31, 2010 is \$112.

Farrwood Green II Condominium Association  
Notes to Financial Statements  
For the year ended March 31, 2010  
(See Accountant's Review Report)

(3) Accounts Receivable

Accounts receivable at March 31, 2010 are shown net of an allowance for estimated uncollectible accounts of \$0. Since any past due fees or assessments may be secured by a lien on the homeowner's unit with the power of foreclosure, no allowance for uncollectible assessments is considered necessary.

(4) Management

The Board of Directors has engaged Property Management of Andover Inc. to provide management services

(5) Replacement Funds

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds, which totaled \$294,465 are held in separate accounts and are generally not available for operating purposes.

The Association has conducted a study to estimate funding necessary to meet future repairs and replacements. For this purpose the Association maintains a replacement fund which was increased in the current year by \$18,000 from common fees and assessments and interest earnings of \$5,418. This fund was also decreased by \$75 for a service charge.

Funds being accumulated in the replacement reserve fund based upon estimated costs for future major repairs and replacement of common property components. Actual expenditures may vary from estimated future expenditures and the variation may be material. Therefore, amounts accumulated in the Replacement Reserve Fund may not be adequate to meet all future major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments or delay major repairs and replacements until the funds are available.

Farrwood Green II Condominium Association  
Notes to Financial Statements  
For the year ended March 31, 2010  
(See Accountant's Review Report)

(6) Income taxes

Condominium associations may elect to be taxed as regular corporations or homeowners' associations. The Association elected to be taxed as a homeowners' association for the year ended March 31, 2010. Under that election, the Association is generally taxed only on non-membership income, such as interest earnings, at regular federal and state tax rates. Membership income is exempt from taxation if certain elections are made.

(7) Common fees and assessments

Charges to unit owners are determined annually by the Board of Directors.

(8) Cash Equivalents

Cash equivalents are comprised of certificate of deposits, which are readily convertible to cash.

(10) Concentration of Credit Risk

The Association has only one source of accounts receivable: the homeowners. Accounts receivable from homeowners are from unit owners of the Association and may be secured by a lien

(11) Pending litigation

As of March 31, 2010, the Association was a defendant in a lawsuit which was filed by a unit owner for alleged improper practices. As of March 31, 2010 it is not possible to determine the outcome of this lawsuit.

(12) Theft of assets

During 2006 and 2007 the Association experienced a theft of funds by its former treasurer. The amount of the theft is still being investigated. As of March 31, 2010, \$20,000 has been repaid by the former treasurer.

Farrwood Green II Condominium Association  
Notes to Financial Statements  
For the year ended March 31, 2010  
(See Accountant's Review Report)

(13) Note payable

Eight year note payable to Brookline Bank dated October 20, 2009 in the original amount of \$300,000. Principal plus interest at the highest prime rate as published in the Wall Street Journal plus one half percent or five and one half percent whichever is greater to be adjusted monthly payable in monthly installments beginning in November 2009. The interest rate as of March 31, 2010 was 6.18%. This note is secured by the assignment of Association fees.

<u>Total</u>	<u><u>\$287,961</u></u>
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Principal payments for the next five fiscal years are as follows:

March 31,	2011	\$28,071
	2012	29,856
	2013	31,754
	2014	33,772
	2015	35,920
	2016 and thereafter	\$128,588

Farrwood Green II Condominium Association  
Schedule of Common Operations and Administrative Expenses  
For the year ended March 31, 2010  
(See Accountant's Review Report)

Common Operations:

Grounds maintenance	\$36,742
General maintenance	50,356
Insurance	22,353
Water and sewer	2,299
Engineering fees	2,526
Utilities	6,861
Snow removal	29,950
Extermination	15,990
Asphalt repairs and maintenance	9,952
Mail boxes	<u>17,303</u>
<u>Total Common Operations</u>	<u><u>\$194,332</u></u>

Administrative expenses:

Management fee	\$27,084
Administrative	5,440
Amortization	112
Professional fees	<u>26,636</u>
<u>Total Administrative expenses</u>	<u><u>\$59,272</u></u>

See accompanying notes to financial statement.

Farrwood Green II Condominium Association  
Supplementary Schedule of Future Major Repairs and Replacements  
For the year ended March 31, 2010  
(See Accountant's Review Report)

The study was conducted in 2008 by Noblin and Associates LLC, to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the current estimated replacement costs as of the time of the study. This study has not been updated.

The following information is based upon the study and presents significant information about the components of common property.

<u>Component:</u>	<u>Useful Lives</u>	<u>Cost</u>
Site utilities	0 years	\$1,800
Irrigation system	0 years	\$2,200
Pavement	2 years	488,100
Sidewalk pavement	2 years	49,740
Concrete patios	12 years	152,640
Concrete stairs	7 years	7,000
Concrete block walls	2 years	61,250
Spilt rail fencing	2 years	2,000
Street signs	11 years	800
Masonry repairs	7 years	76,950
Wood deck	10 years	307,200
Wood deck	6 years	153,600
Shingle roofs	1 years	114,000
Shingle roofs	5 years	285,000
Shingle roofs	26 years	57,000
Metal roof	22 years	369,600
Sealant joints	0 years	68,040
Sealant joints	6 years	10,780
Mailbox kioska	2 years	11,000
Entrance lights	6 years	30,720
Soffit lights	6 years	2,375
Exterior spotlights	6 years	1,800
<u>Totals</u>		<u><u>\$2,253,595</u></u>

See accompanying notes to financial statement.