FARRWOOD GREEN II CONDOMINIUM ASSOCIATION

FINANCIAL STATEMENTS

Year Ended March 31, 2016

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
FINANCIAL STATEMENTS REPORT

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors
Farrwood Green II Condominium Association

We have reviewed the accompanying financial statements of Farrwood Green II Condominium Association (the "Association"), which comprise the balance sheet as of March 31, 2016, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion on the Financial Statements

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted supplementary information about future major repairs and replacements of common property that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The results of our review of the basic financial statements are not affected by that missing information.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
June 3, 2016

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
BALANCE SHEET
MARCH 31, 2016

	Operating Fund	Replacement Reserve Fund	Total
ASSETS			
Cash and cash equivalents	$ 17,698	$ 357,226	$ 374,924
Accounts receivable	3,988	-	3,988
Prepaid insurance expense	10,214	-	10,214
TOTAL ASSETS	$ 31,900	$ 357,226	$ 389,126
LIABILITIES			
Accounts payable and accrued expenses	$ 925	$ -	$ 925
Deferred revenue	6,384	-	6,384
Total Liabilities	7,309	-	7,309
COMMITMENT AND CONTINGENCIES (Note E)			
FUND BALANCES	24,591	357,226	381,817
TOTAL LIABILITIES AND FUND BALANCES	$ 31,900	$ 357,226	$ 389,126

See accompanying notes and independent accountants' review report.

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
YEAR ENDED MARCH 31, 2016

	Operating Fund	Replacement Reserve Fund	Total
REVENUES			
Condominium fee assessments	$ 274,511	$ -	$ 274,511
Other income	270	-	270
Investment income, net	17	1,667	1,684
TOTAL REVENUES	274,798	1,667	276,465
EXPENSES			
Management fees	30,000	-	30,000
Legal and accounting fees	3,575	-	3,575
Administrative and office	3,017	-	3,017
Meeting expenses	275	-	275
Insurance	45,447	-	45,447
Repairs, maintenance and supplies	30,586	-	30,586
Landscaping and irrigation	35,273	-	35,273
Snow removal	38,800	-	38,800
Pest control	4,930	-	4,930
Electricity	4,013	-	4,013
Water and sewer	5,160	-	5,160
Interest	1,572	-	1,572
Capital repairs and replacements - roof	-	7,735	7,735
TOTAL EXPENSES	202,648	7,735	210,383
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	72,150	(6,068)	66,082
FUND BALANCES (Deficit) - Beginning of year	(20,059)	335,794	315,735
TRANSFERS BETWEEN FUNDS	(27,500)	27,500	-
FUND BALANCES - End of year	$ 24,591	$ 357,226	$ 381,817

See accompanying notes and independent accountants' review report.

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2016

	Operating Fund	Replacement Reserve Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficiency) of revenues over expenses	$ 72,150	$ (6,068)	$ 66,082
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities:			
Amortization of loan closing costs	407	-	407
(Increase) decrease in:			
Accounts receivable	3,369	-	3,369
Prepaid expenses	124	-	124
Increase (decrease) in:			
Accounts payable and accrued expenses	(1,032)	-	(1,032)
Deferred revenue	2,770	-	2,770
Interfund balances	(2,000)	2,000	-
Net cash provided by (used in) operating activities	75,788	(4,068)	71,720
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment maturities and redemptions, net	-	210,474	210,474
Net cash provided by investing activities	-	210,474	210,474
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments on note payable	(42,434)	-	(42,434)
Interfund transfers	(27,500)	27,500	-
Net cash (used in) provided by financing activities	(69,934)	27,500	(42,434)
INCREASE IN CASH AND CASH EQUIVALENTS	5,854	233,906	239,760
CASH AND CASH EQUIVALENTS - Beginning of year	11,844	123,320	135,164
CASH AND CASH EQUIVALENTS - End of year	$ 17,698	$ 357,226	$ 374,924
SUPPLEMENTAL DISCLOSURE			
Cash paid for income taxes	$ -	$ -	$ -
Cash paid for interest	$ 1,165	$ -	$ 1,165

See accompanying notes and independent accountants' review report.

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016

Note A – Nature of Organization

Farrwood Green II Condominium Association (the "Association") is a condominium association established in the Commonwealth of Massachusetts on April 1, 1982. The Association, which consists of 128 residential units located in Haverhill, Massachusetts, is responsible for the operation and maintenance of the common property of Farrwood Green II Condominiums.

The Association engages a management company to oversee daily operating activities. Property Management of Andover provided these services throughout all of fiscal year 2016.

Note B – Summary of Significant Accounting Policies

The Association's financial statements are prepared using the accrual basis of accounting. The Association's fiscal year commences the first day of April 1 and concludes on the last day of March the following calendar year. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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 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. Changes in estimates are recorded in the period which they become known.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. 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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with remaining maturities of three months or less. The Association maintains its cash at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. All Association deposits were fully insured at March 31, 2016.

The Association maintained four FDIC-insured certificates of deposit with an aggregate fair value of $208,580 at March 31, 2016. The certificates of deposit mature at various times through April 2018 and bear interest at rates ranging from approximately 0.20% to 2.00% per annum. Penalties for early withdrawal, if any, would not be material to the Association. Accordingly, these certificates of deposit have been classified as cash equivalents in these financial statements.

Accounts Receivable/Unit Owner Assessments

Unit owners are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Accounts receivable consists primarily of unit owner assessments and related charges outstanding at March 31, 2016. The allowance for doubtful accounts is based on the Association's assessment of the collectibility of specific unit owner accounts and an assessment of the economic risk as well as an aging of the accounts receivable. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments become excessively delinquent, as determined by the Board of Directors (the "Board"). After significant measures have failed to result in their collection, an allowance for doubtful accounts is established to represent the estimated uncollectible amount. At March 31, 2016, there was no allowance for doubtful accounts. Any excess assessments at year-end are retained by the Association for use in the succeeding year.

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. The Association capitalizes any material, personal property to which it has title at cost, and depreciates it using the straight-line method over its estimated useful life.

Fair Values

The carrying amounts of cash and cash equivalents, accounts receivable, prepaid insurance, accounts payable and accrued expenses approximate their fair value due to their relatively short-term maturities.

Deferred Revenue

Unit owner assessments are billed and due on the first day of each month in the month the assessments are earned. Unit owners may pay their assessment in advance of this due date. This prepaid amount as of the balance sheet date is reported as deferred revenue.

Revenue Recognition

Unit owner assessments are budgeted annually and due monthly into the Operating Fund. The Association recognizes revenue from unit owner assessments each month, which is considered the period the assessment is earned regardless of when the assessment is paid.

Unit owner assessments were assessed through the budgeting process at between $169 and $229 per month throughout all of fiscal year 2016. Allocation by unit is based upon percentage of beneficial ownership interest.

The Association has the right, subject to Board approval, to levy special or supplemental fee assessments for major operating items, or capital outlays. The Association recognizes revenue in these instances when the assessment is billed. This assessment offsets the liability that will be recorded for the defect.

Transfers

The Association transfers funds into the Replacement Reserve Fund from the Operating Fund in order to meet the essential, annual budgeted funding of the Replacement Reserve Fund. During fiscal year 2016, these transfers totaled $27,500.

Comprehensive Income (Loss)

During the year ended March 31, 2016, comprehensive income (loss) and the excess (deficiency) of revenues over expenses were equal.

Income Taxes

The Association applies the guidance set forth by Accounting Standards Codification ("ASC") 740, *Accounting for Income Taxes*, which requires it to recognize deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period of the rate of change.

The Association is open to examination by federal and state tax authorities for tax years 2013 through 2016.

Condominium associations, if they qualify, may elect to be taxed either as regular corporations or to be treated as a tax-exempt homeowners' association under Internal Revenue Code Section 528. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Nonexempt function income includes earned interest and any revenues received from nonmembers or activities outside of the Association's exempt purpose. The net nonexempt function income is taxed at 30% by the Federal government and at 5.15% by the Commonwealth of Massachusetts. During the year ended March 31, 2016, the Association qualified to be treated as a tax-exempt homeowners' association for tax purposes and elected such provisions.

Subsequent Events Review

In accordance with ASC 855, *Subsequent Events*, management of the Association evaluated subsequent events through June 3, 2016. There were no subsequent events to disclose.

Note C – Commitment and Contingencies

Condominium property, by its very nature, is inherently at risk to structural defects resulting from faulty workmanship or wear and tear. These defects are not always immediately apparent, and quite often, replacement reserve fund balances have not been earmarked or are not sufficient to cure the defect. Although the amount of liability resulting from such situations, if any, at March 31, 2016 cannot be determined, the Association believes that any resulting liability, if any, should not materially affect the financial statements as of March 31, 2016. In those situations where replacement reserves are lacking, a special assessment is normally authorized to fund the amounts necessary to cure the defect.

The Association is subject to various other legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of operations. While the outcome of these other potential claims cannot be predicted with certainty, management does not believe that the outcome of any of these other matters will have a material adverse effect on the Association's financial position or results of operations.

Note D – Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes.

The Association has not engaged within an independent engineer to conduct a study to estimate the remaining useful lives and the replacement costs of the common property components within the past five years. The Association is accumulating funds for such major repairs and replacements. Since a study has not been performed, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to Board approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

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