FARRWOOD GREEN CONDOMINIUM II

49-176 Farrwood Drive
Haverhill, MA 1835

August 31, 2011

To: Homeowners of Farrwood Green Condominium II

Fr: Board Members of Farrwood Green Condominium II

Re: Year-End Report (March 31, 2011)

Please find a copy of the Year-end report, as of March 31, 2011 generated by CPA: Roselli, Clark & Associates.

Thank you.

Enclosure

Managed by Property Management of Andover
PO Box 488
Andover, MA 01810
Telephone: 978-683-4101 Fax: 978-686-4664

FARRWOOD GREEN II
CONDOMINIUM ASSOCIATION

FINANCIAL STATEMENTS
And
SUPPLEMENTAL INFORMATION

Year Ended March 31, 2011

AUG 31 2011

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
FINANCIAL STATEMENTS REPORT
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ROSELLI, CLARK & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Farrwood Green II Condominium Association

We have reviewed the accompanying balance sheet of Farrwood Green II Condominium Association (the "Association") as of March 31, 2011, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended. 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 is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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 conformity with accounting principles generally accepted in the United States of America.

The supplementary information about future major repairs and replacements of common property on page 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles general accepted in the United States of America. We have compiled the supplementary information from information that is the representation of management of the Association, without audit or review. Accordingly, we do not express an opinion or provide any other form of assurance on the supplementary information.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
August 23, 2011

500 West Cummings Park • Suite 3500 • Woburn, Massachusetts 01801
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FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
BALANCE SHEET
MARCH 31, 2011

	Operating Fund	Replacement Reserve Fund	Total
ASSETS			
Cash and cash equivalents:	$ 42,899	$ 275,228	$ 318,127
Accounts receivable	11,438	-	11,438
Prepaid expenses	7,549	-	7,549
Loan closing costs - net	1,768		1,768
TOTAL ASSETS	$ 63,654	$ 275,228	$ 338,882
LIABILITIES			
Accounts payable	$ 16,334	$ -	$ 16,334
Deferred revenue	5,154	-	5,154
Note payable	238,127	-	238,127
Total liabilities	259,615	-	21,488
COMMITMENTS AND CONTINGENCIES (Note E)			
FUND BALANCES	(195,961)	275,228	79,267
TOTAL LIABILITIES AND FUND BALANCES	$ 63,654	$ 275,228	$ 100,755

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, 2011

	Operating Fund	Replacement Reserve Fund	Total
REVENUES			
Condominium fee assessments	$ 249,737	$ 24,000	$ 273,737
Late fees, violations and other income	2,734	-	2,734
Proceeds from insurance claims - net	21,241	-	21,241
Interest income	954	3,724	4,678
TOTAL REVENUES	274,666	27,724	302,390
EXPENSES			
Management fees	28,704	-	28,704
Legal and accounting fees	10,320	-	10,320
Administrative and office	946	118	1,064
Meeting expenses	3,503	-	3,503
Insurance	30,558	-	30,558
Repairs, maintenance and supplies	43,850	-	43,850
Project - gas pipe	19,408	-	19,408
Project - roofs	278,100	-	278,100
Landscaping and irrigation	37,220	-	37,220
Snow removal	58,835	-	58,835
Pest control	3,125	-	3,125
Electricity	7,232	-	7,232
Water and sewer	3,025	-	3,025
Interest expense	16,957	-	16,957
Capital repairs - mold remediation	-	27,435	27,435
TOTAL EXPENSES	541,783	27,553	569,336
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(267,117)	171	(266,946)
FUND BALANCES - Beginning of year	51,748	294,465	346,213
TRANSFER BETWEEN FUNDS	19,408	(19,408)	-
FUND BALANCES (Deficit) - End of year	$ (195,961)	$ 275,228	$ 79,267

See accompanying notes and independent accountants' review report.

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2011

	Operating Fund	Replacement Reserve Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
(Deficiency) excess of revenue over expenses	$ (267,117)	$ 171	$ (266,946)
Adjustments to reconcile (deficiency) excess of revenues over expenses to net cash (used in) provided by operating activities:			
Amortization of loan closing costs	275	-	275
(Increase) decrease in:			
Accounts receivable	9,396	-	9,396
Prepaid expenses	2,258	-	2,258
Increase (decrease) in:			
Accounts payable	11,474	-	11,474
Deferred revenue	(1,406)	-	(1,406)
Net cash (used in) provided by operating activities	(245,120)	171	(244,949)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments on note payable	(49,834)	-	(49,834)
Interfund transfers	19,408	(19,408)	-
Net cash (used in) provided by financing activities	(30,426)	(19,408)	(49,834)
DECREASE IN CASH AND CASH EQUIVALENTS	(275,546)	(19,237)	(294,783)
CASH AND CASH EQUIVALENTS - Beginning of year	318,445	294,465	612,910
CASH AND CASH EQUIVALENTS - End of year	$ 42,899	$ 275,228	$ 318,127
SUPPLEMENTAL DISCLOSURE			
Cash paid for income taxes	$ -	$ -	$ -
Cash paid for interest	$ 16,682	$ -	$ 16,682

See accompanying notes and independent accountants' review report.

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. These services were provided by Property Management of Andover throughout all of fiscal year 2011.

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 commenced on April 1, 2010 and concluded on March 31, 2011. 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 a single financial institution. Accounts at this institution are secured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. All Association deposits were fully insured at March 31, 2011.

At March 31, 2011, the Association maintained two certificates of deposit with different financial institution with an aggregate fair value of $57,916. These certificates of deposit are scheduled to mature in January and April 2012 and bear interest at rates of 1.14% and 4.25% per annum. Penalties for early withdrawal, if any, would not have a material adverse effect on the financial statements of the Association. Accordingly, these amounts have been reported as cash equivalents in the Replacement Reserve Fund 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, 2011. 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. 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, 2011, there was no allowance for doubtful accounts. Any excess assessments at year-end are retained by the Association for use in the succeeding year.

Outstanding balances from two unit owners represented approximately 47% of the March 31, 2011 accounts receivable balance in the Operating Fund. There were no other unit owners who individually represented more than 10% of the outstanding accounts receivable balance in the Operating Fund at March 31, 2011.

Prepaid Expenses

Prepaid expenses consisted of the following at March 31, 2011:

Insurance policy premiums	$ 6,471
Federal and state income taxes	1,078
	$ 7,549

Loan Closing Costs

Loan closing costs of $2,155 are being amortized on a straight-line basis over the term of the note payable (see Note C). Amortization expense for fiscal year 2011 was $275. Accumulated amortization at March 31, 2011 was $387.

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 expenses and accounts payable 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 recorded 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 2011. Allocation by unit is based upon percentage of beneficial ownership interest.

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

Transfers

In fiscal year 2011, the Replacement Reserve Fund provided the Operating Fund with $19,408 through a permanent transfer between funds which had been approved by the members at the annual meeting in 2010. The Operating Fund utilized these monies towards a gas pipe project that was paid for within the Operating Fund.

Comprehensive Income (Loss)

During the year ended March 31, 2011, 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 2008 through 2011.

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 5.3% by the Commonwealth of Massachusetts. During the year ended March 31, 2011, the Association qualified to be treated as a tax-exempt homeowner's 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 the date these financial statements were available to be issued. There were no subsequent events to disclose.

Note C – Note Payable

On October 20, 2009, the Association executed a $300,000, eight-year note payable with a bank (the "Note Payable"). Interest on the Note Payable is 6.18% per annum. The Association is required to make monthly principal and interest payments of $4,532. This monthly payment includes an amount for additional principal, which will reduce the payment term on the Note Payable. The terms of the Note Payable allow the Association to make additional principal payments in advance of their scheduled due dates without penalty. In fiscal year 2011, the Association made advanced payments of $12,124 towards the principal balance of the Note Payable.

The proceeds of the Note Payable were used to finance a roofing project; the relative expenses of which were mostly paid during fiscal year 2011. The Note Payable is secured by all Association assets and future condominium assessments. Future minimum payments on the Note Payable are as follows:

Fiscal Year	Principal	Interest	Total
2012	$ 40,811	$ 13,573	$ 54,384
2013	43,406	10,978	54,384
2014	46,165	8,219	54,384
2015	49,101	5,283	54,384
2016	52,223	2,161	54,384
2017	6,421	43	6,464
	$ 238,127	$ 40,257	$ 278,384

In fiscal year 2011, the Association paid $16,682 in interest expense relative to the Note Payable.

Note D – Deficit

During fiscal year 2011, the Operating Fund generated an accumulated fund balance deficit of $195,961 as the result of having recognized costs associated with a roofing project during this year. This deficit is primarily attributable to the Association having financed the costs of the roofing project through the execution of a Note Payable (see Note C). The deficit is expected to decrease at the same rate as the reduction in the Note Payable, which is scheduled to mature in 2017.

Note E – 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, 2011 cannot be determined, the Association believes that any resulting liability, if any, should not materially affect the financial statements as of March 31, 2011. 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 F – 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 engaged an independent engineer who conducted a study in 2008 to estimate the remaining useful lives and the replacement costs of the common property components relative to the replacement reserve fund. A summary schedule of this study has been included in this report entitled Supplemental Information on Future Repairs and Replacements and can be reviewed on page 11. The actual expenditures in this study may vary from estimated amounts, and variations may be material. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Accordingly, actual future expenditures may exceed the amounts accumulated and as a result the amounts accumulated may not be adequate to meet future needs.

If additional funds are required, the Association has the right, subject to Board approval, to increase regular assessments, levy special assessments, borrow funds, or it may delay major repairs and replacements until funds are available.

* * * * *

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
SUPPLEMENTAL INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
YEAR ENDED MARCH 31, 2011
(UNAUDITED)

An independent engineer conducted a study in 2008 to estimate 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 current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following information is based on the study and presents significant information about the components of of personal property.

Component Requiring Funding	Estimated Useful Remaining Life (Years)	Estimated Current Replacement Cost*
Site utilities	0	$ 1,800
Irrigation system	0	2,200
Pavement	2	488,100
Sidewalk pavement	2	49,740
Concrete patios	12	152,640
Concrete stairs	7	7,000
Concrete block walls	2	61,250
Split rail fencing	2	2,000
Street signs	11	800
Masonry repairs	7	76,950
Wood deck	6 to 10	460,800
Shingle roofs	1 to 26	456,000
Metal roofs	22	369,600
Sealant joints	0 to 6	78,820
Mailbox kiosks	2	11,000
Entrance lights	6	30,720
Soffit lights	6	2,375
Exterior spotlights	6	1,800
		$ 2,253,595

* The Estimated Current Cost is based upon component funding as of the date of the reserve study report prepared by the engineer. Components that have been replaced since the issuance of that report are <u>not</u> reduced from the amounts shown above.

See independent accountants' review report.