

FARRWOOD GREEN II
CONDOMINIUM ASSOCIATION

FINANCIAL STATEMENTS
And
SUPPLEMENTAL INFORMATION

Year Ended March 31, 2014

**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 balance sheet of Farrwood Green II Condominium Association (the "Association") as of March 31, 2014, and the related statements of revenues, expenses and changes in fund balances, comprehensive income 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.

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have compiled the required supplementary information without audit or review, and, accordingly, we do not express an opinion or provide any assurance on it.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
May 28, 2014

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
BALANCE SHEET
MARCH 31, 2014

	Operating Fund	Replacement Reserve Fund	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 59,779	\$ 146,439	\$ 206,218
Investments	-	208,858	208,858
Accounts receivable	7,734	-	7,734
Prepaid expenses	6,590	-	6,590
Loan closing costs, net	813	-	813
TOTAL ASSETS	\$ 74,916	\$ 355,297	\$ 430,213
<u>LIABILITIES</u>			
Accounts payable	\$ 8,351	\$ -	\$ 8,351
Insurance claim payable	4,925	-	4,925
Accrued expenses	482	-	482
Deferred revenue	4,286	-	4,286
Note payable	92,499	-	92,499
Total Liabilities	110,543	-	110,543
COMMITMENT AND CONTINGENCIES (Note E)			
<u>FUND BALANCES</u>			
Accumulated excess (deficiency) of revenues over expenses	(35,627)	354,372	318,745
Accumulated other comprehensive income: Net unrealized gain on investments	-	925	925
Total Fund Balances	(35,627)	355,297	319,670
TOTAL LIABILITIES AND FUND BALANCES	\$ 74,916	\$ 355,297	\$ 430,213

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, 2014

	Operating Fund	Replacement Reserve Fund	Total
<u>REVENUES</u>			
Condominium fee assessments	\$ 274,490	\$ -	\$ 274,490
Proceeds from legal settlement	22,581	-	22,581
Other income	845	-	845
Investment income, net	12	4,959	4,971
TOTAL REVENUES	<u>297,928</u>	<u>4,959</u>	<u>302,887</u>
<u>EXPENSES</u>			
Management fees	28,704	-	28,704
Legal and accounting fees	3,967	-	3,967
Administrative and office	2,016	10	2,026
Meeting expenses	991	-	991
Insurance	30,879	-	30,879
Repairs, maintenance and supplies - general	20,786	-	20,786
Asphalt repairs and replacements	34,995	-	34,995
Landscaping and irrigation	39,533	-	39,533
Snow removal	39,103	-	39,103
Pest control	4,150	-	4,150
Electricity	6,408	-	6,408
Water and sewer	1,205	-	1,205
Interest	7,722	-	7,722
Miscellaneous	5	-	5
TOTAL EXPENSES	<u>220,464</u>	<u>10</u>	<u>220,474</u>
EXCESS OF REVENUES OVER EXPENSES	77,464	4,949	82,413
FUND BALANCES (Deficit) - Beginning of year	(101,091)	342,917	241,826
TRANSFERS BETWEEN FUNDS	(12,000)	12,000	-
NET UNREALIZED LOSS ON INVESTMENTS	-	(4,569)	(4,569)
FUND BALANCES (Deficit) - End of year	<u>\$ (35,627)</u>	<u>\$ 355,297</u>	<u>\$ 319,670</u>

See accompanying notes and independent accountants' review report.

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED MARCH 31, 2014

	Operating Fund	Replacement Reserve Fund	Total
EXCESS OF REVENUES OVER EXPENSES	\$ 77,464	\$ 4,949	\$ 82,413
OTHER COMPREHENSIVE INCOME:			
Unrealized loss on investments, net	-	(4,569)	(4,569)
OTHER COMPREHENSIVE INCOME (LOSS)	-	(4,569)	(4,569)
COMPREHENSIVE INCOME	\$ 77,464	\$ 380	\$ 77,844

See accompanying notes and independent accountants' review report.

**FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2014**

	Operating Fund	Replacement Reserve Fund	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Excess of revenues over expenses	\$ 77,464	\$ 4,949	\$ 82,413
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Amortization of loan closing costs	407	-	407
(Increase) decrease in:			
Accounts receivable	11,340	-	11,340
Prepaid expenses	2,589	-	2,589
Increase (decrease) in:			
Accounts payable	3,270	-	3,270
Insurance claim payable	4,925	-	4,925
Accrued expenses	(1,339)	-	(1,339)
Deferred revenue	(1,187)	-	(1,187)
Net cash provided by operating activities	97,469	4,949	102,418
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Investment maturities and redemptions, net	-	(50,531)	(50,531)
Repayments on note payable	(47,068)	-	(47,068)
Interfund transfers	(12,000)	12,000	-
Net cash used in financing activities	(59,068)	(38,531)	(97,599)
CHANGE IN CASH AND CASH EQUIVALENTS	38,401	(33,582)	4,819
CASH AND CASH EQUIVALENTS - Beginning of year	21,378	180,021	201,399
CASH AND CASH EQUIVALENTS - End of year	\$ 59,779	\$ 146,439	\$ 206,218
<u>SUPPLEMENTAL DISCLOSURE</u>			
Cash paid for income taxes	\$ 113	\$ -	\$ 113
Cash paid for interest	\$ 7,315	\$ -	\$ 7,315

See accompanying notes and independent accountants' review report.

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

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 2014.

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, 2013 and concluded on March 31, 2014. 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, 2014.

Investments

Investments, which are classified as available for sale, are carried at fair market value in the Replacement Reserve Fund. Unrealized gains and losses are reported in accumulated other comprehensive income in fund balances. Investments consist of FDIC-insured certificates of deposit with remaining maturities in excess of ninety days (\$46,612) and mutual funds (\$162,246). The fair value of investments is determined as the exit price in the principal market in which the Association would transact.

Level 1 instruments are valued based on quoted market prices in active markets and include investments such as publicly-traded mutual funds, treasury bills and money markets. Level 2 instruments are values based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency and include investments such as commercial paper, corporate bonds and notes, municipal bonds, government-sponsored enterprise obligations and FDIC-insured certificates of deposit. Level 3 instruments are values based on unobservable inputs that are supported by little or no market activity and reflect assumptions in measuring fair value.

At March 31, 2014, the Association's investment in mutual funds was valued using Level 1 instruments. The Association's investment in FDIC-insured certificates of deposit was valued using Level 2 instruments. The Association had no investments valued as Level 3 instruments.

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, 2014. 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, 2014, there was no allowance for doubtful accounts. Any excess assessments at year-end are retained by the Association for use in the succeeding year.

Prepaid Expenses

Prepaid expenses consisted of advances payments made on insurance policy premiums at March 31, 2014.

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.

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 2014 was \$407. Remaining unamortized balance at March 31, 2014 was \$1,342.

Fair Values

The carrying amounts of cash and cash equivalents, accounts receivable, prepaid expenses, 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 2014. 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.

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 2011 through 2014.

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 5.25% by the Commonwealth of Massachusetts. During the year ended March 31, 2014, 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 May 28, 2014. 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 was originally 6.18% per annum, however the per annum interest rate was reduced to 4.25% in August 2012. 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.

The proceeds of the Note Payable were used to finance a roofing project funded by the Association’s Operating Fund. The Note Payable is secured by all Association assets and future condominium assessments.

Future minimum payments on the Note Payable are as follows:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 48,198	\$ 6,186	\$ 54,384
2016	<u>44,301</u>	<u>5,551</u>	<u>49,852</u>
	<u>\$ 92,499</u>	<u>\$ 11,737</u>	<u>\$ 104,236</u>

In fiscal year 2014, the Association recorded \$7,315 in interest expense relative to the Note Payable.

Note D – Deficit

The Association continues to operate with an accumulated fund balance deficit in its Operating Fund, yet it did decrease \$65,464 in fiscal year 2014 to \$35,627. This deficit was initially incurred in fiscal year 2011 as a result of a significant roofing project, which was financed with the proceeds of the Note Payable (see Note C). The deficit is expected to decrease at a similar rate as the reduction in the Note Payable, which is scheduled to mature in fiscal year 2016.

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, 2014 cannot be determined, the Association believes that any resulting liability, if any, should not materially affect the financial statements as of March 31, 2014. 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.

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FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
SUPPLEMENTAL INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
YEAR ENDED MARCH 31, 2014
(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 personal property.

<u>Component Requiring Funding</u>	<u>Estimated Useful Remaining Life (Years)</u>	<u>Estimated Current Replacement Cost*</u>
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
		<u>\$ 2,253,595</u>

* 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 not reduced from the amounts shown above.

See independent accountants' review report.