

FARRWOOD GREEN II
CONDOMINIUM ASSOCIATION

FINANCIAL STATEMENTS
And
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2015

**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, 2015, 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
August 21, 2015

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
BALANCE SHEET
MARCH 31, 2015

	Operating Fund	Replacement Reserve Fund	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 11,844	\$ 123,320	\$ 135,164
Investments	-	208,972	208,972
Accounts receivable	7,357	-	7,357
Prepaid insurance	10,338	-	10,338
Loan closing costs, net	407	-	407
Interfund balances	(2,000)	2,000	-
	\$ 27,946	\$ 334,292	\$ 362,238
 TOTAL ASSETS			
	\$ 27,946	\$ 334,292	\$ 362,238
 <u>LIABILITIES</u>			
Accounts payable	\$ 1,257	\$ -	\$ 1,257
Accrued expenses	700	-	700
Deferred revenue	3,614	-	3,614
Note payable	42,434	-	42,434
	48,005	-	48,005
Total Liabilities	48,005	-	48,005
 COMMITMENT AND CONTINGENCIES (Note E)			
 <u>FUND BALANCES</u>			
Accumulated excess (deficiency) of revenues over expenses	(20,059)	335,794	315,735
Accumulated other comprehensive income:			
Net unrealized loss on investments	-	(1,502)	(1,502)
	(20,059)	334,292	314,233
Total Fund Balances	(20,059)	334,292	314,233
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 27,946	 \$ 334,292	 \$ 362,238

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, 2015

	Operating Fund	Replacement Reserve Fund	Total
<u>REVENUES</u>			
Condominium fee assessments	\$ 274,436	\$ -	\$ 274,436
Other income	1,207	-	1,207
Investment income, net	40	3,676	3,716
TOTAL REVENUES	275,683	3,676	279,359
<u>EXPENSES</u>			
Management fees	30,000	-	30,000
Legal and accounting fees	2,825	-	2,825
Administrative and office	2,254	-	2,254
Meeting expenses	1,799	-	1,799
Insurance	41,743	-	41,743
Repairs, maintenance and supplies - general	20,930	-	20,930
Asphalt repairs and replacements	46,175	-	46,175
Landscaping and irrigation	32,550	-	32,550
Snow removal	82,288	-	82,288
Pest control	5,165	-	5,165
Electricity	8,227	-	8,227
Water and sewer	3,687	-	3,687
Interest	4,726	-	4,726
TOTAL EXPENSES	282,369	-	282,369
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(6,686)	3,676	(3,010)
FUND BALANCES (Deficit) - Beginning of year	(35,627)	355,297	319,670
TRANSFERS BETWEEN FUNDS	22,254	(22,254)	-
NET UNREALIZED (LOSS) ON INVESTMENTS	-	(2,427)	(2,427)
FUND BALANCES (Deficit) - End of year	\$ (20,059)	\$ 334,292	\$ 314,233

See accompanying notes and independent accountants' review report.

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED MARCH 31, 2015

	Operating Fund	Replacement Reserve Fund	Total
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	\$ (6,686)	\$ 3,676	\$ (3,010)
NET TRANSFERS BETWEEN FUNDS	22,254	(22,254)	-
OTHER COMPREHENSIVE INCOME:			
Unrealized loss on investments, net	-	(2,427)	(2,427)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	-	(2,427)	(2,427)
COMPREHENSIVE INCOME (LOSS)	\$ 15,568	\$ (21,005)	\$ (5,437)

See accompanying notes and independent accountants' review report.

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2015

	<u>Operating Fund</u>	<u>Replacement Reserve Fund</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Excess (deficiency) of revenues over expenses	\$ (6,686)	\$ 3,676	\$ (3,010)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities:			
Amortization of loan closing costs	406	-	406
(Increase) decrease in:			
Accounts receivable	377	-	377
Prepaid expenses	(3,748)	-	(3,748)
Increase (decrease) in:			
Accounts payable	(7,094)	-	(7,094)
Insurance claim payable	(4,925)	-	(4,925)
Accrued expenses	218	-	218
Deferred revenue	(672)	-	(672)
Interfund balances	2,000	(2,000)	-
Net cash provided by (used in) operating activities	<u>(20,124)</u>	<u>1,676</u>	<u>(18,448)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Investment maturities and redemptions, net	-	(2,541)	(2,541)
Repayments on note payable	(50,065)	-	(50,065)
Interfund transfers	22,254	(22,254)	-
Net cash used in (provided by) financing activities	<u>(27,811)</u>	<u>(24,795)</u>	<u>(52,606)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(47,935)	(23,119)	(71,054)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>59,779</u>	<u>146,439</u>	<u>206,218</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 11,844</u>	<u>\$ 123,320</u>	<u>\$ 135,164</u>
<u>SUPPLEMENTAL DISCLOSURE</u>			
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash paid for interest	<u>\$ 4,320</u>	<u>\$ -</u>	<u>\$ 4,320</u>

See accompanying notes and independent accountants' review report.

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015

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 2015.

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, 2014 and concluded on March 31, 2015. 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, 2015.

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 (\$47,624) and mutual funds (\$161,348). 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, 2015, 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, 2015. 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, 2015, 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.

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 2015 was \$406. Remaining unamortized balance at March 31, 2015 was \$407, which the Association expects to recognize in fiscal year 2016 as non-cash interest expense.

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 2015. 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 2015, these transfers totaled \$12,000.

In addition, during fiscal year 2015, the Board voted to permanently transfer \$34,254 of Replacement Reserve Funds back to the Operating Fund to assist in funding the significantly excessive snow removal costs which resulted from record level snow fall accumulation during the year.

Comprehensive Income

This is defined as all changes in fund balance during a period except those resulting from investments by owners and distributions to owners, and as such includes excess revenues over expenses, transfers between funds, and unrealized gains or losses on investments held. However, held unrealized gains or losses on investments are reported and categorized as other comprehensive income and their accumulated balance is reported as a separate component of fund balance on the Balance Sheet.

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 2012 through 2015.

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 5.2% by the Commonwealth of Massachusetts. During the year ended March 31, 2015, 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 August 21, 2015. 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.

In fiscal year 2015, the Association paid \$4,320 in interest expense relative to the Note Payable. The Association expects to repay the Note Payable in full during fiscal year 2016, with principal and interest payments anticipated to be \$42,434 and \$2,886, respectively.

Note D – Deficit

The Association continues to operate with an accumulated fund balance deficit in its Operating Fund. The deficit decreased by \$15,568 to \$20,059 as of March 31, 2015. 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, 2015 cannot be determined, the Association believes that any resulting liability, if any, should not materially affect the financial statements as of March 31, 2015. 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
REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
YEAR ENDED MARCH 31, 2015
(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 common property.

<u>Component Requiring Funding</u>	2008 Estimated Useful Remaining Life (Years)	2008 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
	Total	\$ 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 the 2008 report are not reduced from the amounts shown above.

** The Trust would note that the mailbox kiosks replacement has been accomplished since the date of the 2008 reserve study report; additionally, the shingle roofs have also been replaced and some parking lot pavement. It is further noted that the overall cost shown above for the shingled roofs extends over a 26-year period; and therefore, a portion of the amount shown above does remain for future year replacements.

See independent accountants' review report.