FARRWOOD GREEN II
CONDOMINIUM ASSOCIATION

FINANCIAL STATEMENTS

Year Ended March 31, 2018

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
FINANCIAL STATEMENTS REPORT

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ROSELLI, CLARK & ASSOCIATES
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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, 2018, 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
August 15, 2018

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
BALANCE SHEET
MARCH 31, 2018

	Operating Fund	Replacement Reserve Fund	Total
ASSETS			
Cash and cash equivalents	$ 11,944	$ 407,388	$ 419,332
Accounts receivable	5,480	-	5,480
Prepaid insurance expense	9,930	-	9,930
TOTAL ASSETS	$ 27,354	$ 407,388	$ 434,742
LIABILITIES			
Accounts payable and accrued expenses	$ 4,651	$ -	$ 4,651
Prepaid assessments	7,405	-	7,405
Note payable	-	479,207	479,207
Total Liabilities	12,056	479,207	491,263
FUND BALANCES (Deficit)	15,298	(71,819)	(56,521)
TOTAL LIABILITIES AND FUND BALANCES	$ 27,354	$ 407,388	$ 434,742

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, 2018

	Operating Fund	Replacement Reserve Fund	Total
REVENUES			
Condominium fee assessments	$ 310,897	$ -	$ 310,897
Other income	573	-	573
Interest income	-	3,050	3,050
TOTAL REVENUES	311,470	3,050	314,520
EXPENSES			
Management fees	25,992	-	25,992
Legal and accounting fees	2,300	-	2,300
Administrative and office	2,430	-	2,430
Meeting expenses	1,190	-	1,190
Insurance	44,100	-	44,100
Repairs, maintenance and supplies	29,467	-	29,467
Landscaping and irrigation	54,031	-	54,031
Snow removal	39,618	-	39,618
Pest control	5,144	-	5,144
Electricity	6,248	-	6,248
Water and sewer	2,393	-	2,393
Interest and loan expense	-	23,494	23,494
Capital replacements - paving	-	20,141	20,141
Capital replacements - siding	-	107,198	107,198
TOTAL EXPENSES	212,913	150,833	363,746
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	98,557	(147,783)	(49,226)
FUND BALANCES (Deficit) - Beginning of year	29,741	(37,036)	(7,295)
TRANSFERS BETWEEN FUNDS	(113,000)	113,000	-
FUND BALANCES (Deficit) - End of year	$ 15,298	$ (71,819)	$ (56,521)

See accompanying notes and independent accountants' review report.

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2018

	Operating Fund	Replacement Reserve Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficiency) of revenues over expenses	$ 98,557	$ (147,783)	$ (49,226)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities:			
(Increase) decrease in:			
Accounts receivable	(333)	-	(333)
Prepaid expenses	(30)	-	(30)
Increase (decrease) in:			
Accounts payable and accrued expenses	3,096	-	3,096
Prepaid assessments	2,025	-	2,025
Net cash provided by (used in) operating activities	103,315	(147,783)	(44,468)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowing on note payable	-	127,339	127,339
Repayments on note payable	-	(150,375)	(150,375)
Interfund transfers	(113,000)	113,000	-
Net cash (used in) provided by financing activities	(113,000)	89,964	(23,036)
DECREASE IN CASH AND CASH EQUIVALENTS	(9,685)	(57,819)	(67,504)
CASH AND CASH EQUIVALENTS - Beginning of year	21,629	465,207	486,836
CASH AND CASH EQUIVALENTS - End of year	$ 11,944	$ 407,388	$ 419,332
SUPPLEMENTAL DISCLOSURE			
Cash paid for income taxes	$ -	$ -	$ -
Cash paid for interest	$ -	$ 23,494	$ 23,494

See accompanying notes and independent accountants' review report.

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018

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 is government by a Board of Directors (the "Board") consisting of elected unit owners. The Association engages a management company to oversee daily operating activities. Property Management of Andover provided these services throughout all of fiscal year 2018.

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 as 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 original maturities of three months or less. The Association's deposits insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 at each financial institution. All Association deposits were fully insured at March 31, 2018.

The Association maintained four FDIC-insured certificates of deposit with an aggregate fair value of $214,104 at March 31, 2018. The certificates of deposit mature at various times through October 2020 and bear interest at rates ranging from approximately 0.5% to 2.47% 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, 2018. The allowance for doubtful accounts is based on the Association's assessment of the collectability 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, 2018, there was no allowance for doubtful accounts.

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 property and equipment to which it has title at cost, and depreciates it using the straight-line method over its estimated useful life. No amounts were capitalized into property and equipment at March 31, 2018.

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. Subsequent year assessments received in advance by the Association are reported as prepaid assessments. Excess condominium assessments are retained by the Association for use in future years.

Unit owners were assessed through the budgeting process at between $192 and $259 per month throughout all of fiscal year 2018. 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.

Income Taxes

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 5.1% by the Commonwealth of Massachusetts. During the year ended March 31, 2018, the Association qualified to be treated as a tax-exempt homeowners' association for tax purposes and elected such provisions.

The Association is open to examination by federal and state tax authorities for tax years 2015 through 2018. In evaluating the Association's tax positions and accruals, the Association believes that its estimates are appropriate based on the current facts and circumstances.

Subsequent Events Review

Management of the Association evaluated subsequent events through August 15, 2018. There were no subsequent events to disclose.

Note C – Note Payable

In May 2016, the Association executed a $750,000, 135-month business term loan with Avidia Bank (the "Note Payable"). The proceeds of the Note Payable are being used to finance a significant capital repair project in the Association's Replacement Reserve Fund.

Under the terms of the Note Payable, the Association was permitted to draw down against the $750,000 commitment over a period of fifteen months. During this draw down period, the Association paid monthly interest-only payments to Avidia Bank at a rate of 4.5% per annum. At the conclusion of the draw down period, net draw downs of $546,540 were converted into a ten-year, 4.5% term loan.

The Note Payable is secured by all Association assets and future condominium assessments. The Association is permitted to make prepayments on the Note Payable; however, should the Note Payable be refinanced with another lender during the first five years, a prepayment penalty is due to Avidia Bank.

In fiscal year 2018, the Association paid $23,494 to Avidia Bank. The following represents the future minimum payments on the Note Payable:

Year Ended March 31,	Principal	Interest	Total
2019	$ 47,282	$ 20,895	$ 68,177
2020	49,486	18,691	68,177
2021	51,793	16,384	68,177
2022	54,208	13,969	68,177
2023	56,735	11,442	68,177
Thereafter	219,703	18,395	238,098
Totals	$ 479,207	$ 99,776	$ 578,983

The Association's budget currently transfers $93,000 each year from the Operating Fund to the Replacement Reserve Fund to finance the repayment of the annual forecasted principal and interest payments due on the Note Payable.

Note D – Deficit

The Association continues to operate with a deficit fund balance in its Replacement Reserve Fund, which increased during the fiscal year by $34,783 to a total of $71,819 at March 31, 2018. This deficit was initiated in fiscal year 2017 as the result of a significant siding replacement project, which was financed with the proceeds of the Note Payable and for which the Association continued incurring expenses in fiscal year 2018. The Association expects to eliminate this deficit through future transfers from the Operating Fund derived from the monthly condominium fee assessments.

Note E – Commitment and Contingencies

Property Structures

Condominium property, by its very nature, is inherently at risk to structural defects. These defects are not always immediately apparent, and quite often, replacement reserve fund balances are insufficient to cure the defect. Although the amount of liability resulting from such situations at March 31, 2018 cannot be determined, the Association believes that any resulting liability, if any, should not materially affect the financial statements. In those situations where replacement reserves are lacking, a special assessment is normally authorized to fund the amounts necessary to cure the defect.

Litigation

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.

Insurance

In the event of a disaster, the Association could be exposed to losses for damages in excess of insurance coverage limits. The Association considers its insurance coverage adequate.

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 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 Reserve 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.