

**FAIRWAY MEADOWS PATIO HOMES
ASSOCIATION, INC.**

FINANCIAL STATEMENTS

Year Ended December 31, 2009

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Independent Accountant's Review Report

To the Board of Directors
Fairway Meadows Patio Homes Association, Inc.
Woodbury, Minnesota

I have reviewed the accompanying balance sheet of Fairway Meadows Patio Homes Association, Inc. as of December 31, 2009, and the related statements of revenues and expenses and changes in members' equity (deficit), and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Fairway Meadows Patio Homes Association, Inc.

A review consists principally of inquiries of association personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion.

Based on my review I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The American Institute of Certified Public Accountants has determined that supplementary information about future major repairs and replacements of common property is required to supplement, but not required to be part of, the basic financial statements. Fairway Meadows Patio Homes Association, Inc. has not presented this supplementary information. See Note A for additional information on this matter.

D. A. Klein, CPA

February 13, 2010

FAIRWAY MEADOWS PATIO HOMES ASSOCIATION, INC.**BALANCE SHEET**

December 31, 2009

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash	\$ 15,984	\$ 61,334	\$ 77,318
Assessments receivable, less allowance for doubtful accounts of \$26,984	44,450	-	44,450
Accrued interest receivable	-	238	238
Prepaid expense	6,856	-	6,856
Due from operating fund	-	24,270	24,270
	<u>67,290</u>	<u>85,842</u>	<u>153,132</u>
Total current assets			
	<u>67,290</u>	<u>85,842</u>	<u>153,132</u>
INVESTMENTS			
	-	70,000	70,000
	<u>\$ 67,290</u>	<u>\$ 155,842</u>	<u>\$ 223,132</u>
LIABILITIES AND MEMBERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	\$ 24,518	\$ -	\$ 24,518
Prepaid assessments	7,760	-	7,760
Due to collections	5,940	-	5,940
Due to replacement fund	24,270	-	24,270
	<u>62,488</u>	<u>-</u>	<u>62,488</u>
Total current liabilities			
	<u>62,488</u>	<u>-</u>	<u>62,488</u>
MEMBERS' EQUITY			
Undesignated	4,802	-	4,802
Designated for replacements	-	155,842	155,842
	<u>4,802</u>	<u>155,842</u>	<u>160,644</u>
	<u>\$ 67,290</u>	<u>\$ 155,842</u>	<u>\$ 223,132</u>

The accountant's review report and accompanying
notes are integral to these financial statements

FAIRWAY MEADOWS PATIO HOMES ASSOCIATION, INC.**STATEMENTS OF REVENUES AND EXPENSES AND****CHANGES IN MEMBERS' EQUITY (DEFICIT)**

For the year ended December 31, 2009

	Operating Fund	Replacement Fund	Total
REVENUES			
Member assessments	\$ 218,502	\$ 29,800	\$ 248,302
Other income	9,201	-	9,201
Interest income	-	2,434	2,434
	<u>227,703</u>	<u>32,234</u>	<u>259,937</u>
EXPENSES			
Accounting fees	1,450	-	1,450
Administrative expense	2,931	-	2,931
Bad debt expense	5,824	-	5,824
Community management	16,464	-	16,464
Insurance package	43,435	-	43,435
Landscape maintenance	50,380	-	50,380
Legal and collection expense	10,312	-	10,312
Master association dues	6,701	-	6,701
Repairs and maintenance	5,293	-	5,293
Snow removal	29,593	-	29,593
Trash removal	14,249	-	14,249
Utilities	18,357	-	18,357
	<u>204,989</u>	<u>-</u>	<u>204,989</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENSES	22,714	32,234	54,948
MEMBERS' EQUITY (DEFICIT)			
UNDESIGNATED AND DESIGNATED			
At beginning of year	<u>(17,912)</u>	<u>123,608</u>	<u>105,696</u>
At end of year	<u>\$ 4,802</u>	<u>\$ 155,842</u>	<u>\$ 160,644</u>

The accountant's review report and accompanying
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FAIRWAY MEADOWS PATIO HOMES ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Assessments received from members	\$ 241,474
Payments to vendors	(214,767)
Other income received	6,699
Interest received	<u>2,516</u>
Net cash provided (used) by operating activities	<u>35,922</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(80,000)
Proceeds from sales of investments	<u>70,000</u>
Net cash provided (used) by investing activities	<u>(10,000)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash provided (used) by financing activities	<u>-</u>
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NET INCREASE (DECREASE) IN CASH	<u>25,922</u>
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CASH AND CASH EQUIVALENTS

At beginning of year	<u>51,396</u>
At end of year	<u><u>\$ 77,318</u></u>

The accountant's review report and accompanying
notes are integral to these financial statements

FAIRWAY MEADOWS PATIO HOMES ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2009

**RECONCILIATION OF REVENUES IN EXCESS OF
(LESS THAN) EXPENSES TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES**

Revenues in excess of (less than) expenses	<u>\$ 54,948</u>
Adjustments to reconcile revenues in excess of (less than) expenses to net cash provided (used) by operating activities	
Provision for bad debt	3,788
Change in current assets and liabilities	
Assessments receivable	(7,824)
Accrued interest receivable	82
Prepaid expense	(5,719)
Accounts payable	(10,170)
Prepaid assessments	530
Due to collections	<u>287</u>
Total adjustments	<u>(19,026)</u>
Net cash provided (used) by operating activities	<u><u>\$ 35,922</u></u>

The accountant's review report and accompanying
notes are integral to these financial statements

FAIRWAY MEADOWS PATIO HOMES ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Formation and Nature of Association

Fairway Meadows Patio Homes Association, Inc., located in Woodbury, Minnesota, was incorporated in 2003 and provides general insurance, general repairs and maintenance, as well as certain repairs and maintenance to the 111 residential units for the Fairway Meadows Patio Homes homeowners/members. The Association shares common area with two other associations and pays dues to Fairway Meadows Community Association, Inc., a Master Association, for maintenance and replacement of common area facilities.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

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:

The Operating Fund is used to account for financial resources available for the general operations of the Association.

The Replacement Fund is used to accumulate financial resources designated for future major repairs and replacements.

Membership Dues and Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions and major repairs and replacements. The members are also subject to assessments from Fairway Meadows Community Association, Inc. for common area operating expenses, future capital acquisitions and major repairs and replacements.

Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to send written collection letters, retain legal counsel or collection agency, and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. Assessments receivable include only those accounts considered collectible. Any excess assessments at year end are retained by the Association for use in the succeeding year.

FAIRWAY MEADOWS PATIO HOMES ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

The Association capitalizes all property and equipment to which it has title or other evidence of ownership with the exception of real property directly associated with the units. At December 31, 2009, the Association has not capitalized any property or equipment.

Due to Collections

Due to collections represents amounts owed to the collection agency. The fee has been assessed to the delinquent homeowner's account and will be paid to the agency if the delinquent account is collected.

Future Major Repairs and Replacements

The Association's governing documents require the Association to accumulate a replacement fund for future major repairs and replacements. The Board has not conducted a study to determine the expected cost for an adequate reserve in the Replacement Fund. The Board has included in the assessments amounts allocated to accumulate in the Replacement Fund. Amounts accumulated in the Replacement Fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right to increase regular assessments, levy special assessments or delay repairs and replacements until funds are available.

Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 13, 2010, the date the financial statements were available to be issued.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of 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.

FAIRWAY MEADOWS PATIO HOMES ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE B - CASH

Cash was comprised of the following general account types:

Regular demand account	\$ 15,984
Money market accounts	<u>61,334</u>
	<u>\$ 77,318</u>

NOTE C - INVESTMENTS

Investments were comprised of certificates of deposits (CD's). The CD's are carried at cost, which approximates fair value, since the Board intends to hold them until maturity. Interest is accrued and recognized in income when earned.

NOTE D - INCOME TAXES

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2009, the Association has elected to be taxed in accordance with IR Code Section 528 to file Form 1120-H and be taxed as a homeowners' association. Only net revenues from non-member activities, primarily interest income, are taxed at statutory rates.

Upon adoption of FASB ASC 740-10-50, formerly FIN 48, on January 1, 2009 the Association did not have any tax benefits relating to uncertain tax positions for which it recorded a tax liability. The Association estimates that its tax liability for uncertain tax positions will not significantly change during 2010. The Association recognizes potential accrued interest and penalties pertaining to income tax related issues, if any, as an income tax expense. During 2009 no penalties and interest were recorded. The Association believes it is no longer subject to federal and state income tax examinations for the years prior to 2006.