

STARWOOD ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2008**

**Starwood Association
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*A Professional Corporation
Members American Institute of
Certified Public Accountants /
Oregon Society of Certified Public
Accountants*

Board of Directors
Starwood Association
Bend, Oregon

We have reviewed the accompanying balance sheet of Starwood Association as of December 31, 2008, and the related statements of revenues and expenses, changes in fund balance 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 Starwood Association.

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 auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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 repairs and replacements on pages 8 to 12 is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. We have compiled the supplementary information from information that is the representation of management of Starwood Association, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

Portland, Oregon
June 10, 2009

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Starwood Association
Balance Sheet
December 31, 2008

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>Total</u>
ASSETS			
Cash, including interest bearing deposits	\$ 9,122	\$ 43,821	\$ 52,943
Investments	2,160	16,787	18,947
Assessments receivable	3,045	-	3,045
Prepaid expenses	890	-	890
Prepaid income taxes	136	-	136
Property and equipment, net of accumulated depreciation of \$231,982	157,178	-	157,178
Loan to RV storage	(4,210)	4,210	-
Interfund balance	<u>(3,005)</u>	<u>3,005</u>	<u>-</u>
Total assets	<u>\$ 165,316</u>	<u>\$ 67,823</u>	<u>\$ 233,139</u>
LIABILITIES AND FUND BALANCE			
Accounts payable	\$ 91	\$ -	\$ 91
Deposits	2,732	-	2,732
Assessments received in advance	<u>984</u>	<u>-</u>	<u>984</u>
Total liabilities	3,807	-	3,807
Fund balance	<u>161,509</u>	<u>67,823</u>	<u>229,332</u>
Total liabilities and fund balance	<u>\$ 165,316</u>	<u>\$ 67,823</u>	<u>\$ 233,139</u>

See accompanying notes and accountants' report

Starwood Association
Statement of Revenues and Expenses
For the Year Ended December 31, 2008

	Operating Fund	Replacement Fund	Total
REVENUES			
Regular assessments	\$ 58,849	\$ 28,300	\$ 87,149
Interest	73	1,414	1,487
Late fees	551	-	551
Pasture income	1,000	-	1,000
RV storage income	8,448	-	8,448
Other income	1,051	507	1,558
	<u>69,972</u>	<u>30,221</u>	<u>100,193</u>
EXPENSES			
Property maintenance	15,145	-	15,145
RV storage expense	2,415	-	2,415
Utilities	1,788	-	1,788
Landscaping	21,397	-	21,397
Insurance	2,713	-	2,713
Management fees	10,865	-	10,865
Professional fees	2,602	-	2,602
Office expense	2,487	-	2,487
Licenses, permits and fees	141	-	141
Income taxes	10	-	10
Depreciation	30,920	-	30,920
Other	387	-	387
	<u>90,870</u>	<u>-</u>	<u>90,870</u>
Total expenses	<u>90,870</u>	<u>-</u>	<u>90,870</u>
Excess of revenues (under) over expenses	<u>\$ (20,898)</u>	<u>\$ 30,221</u>	<u>\$ 9,323</u>

See accompanying notes and accountants' report

Starwood Association
Statement of Changes in Fund Balance
For the Year Ended December 31, 2008

	Operating Fund	Replacement Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Fund balance, as of December 31, 2007	\$ 151,304	\$ 68,705	\$ 220,009
Excess of revenues (under) over expenses	(20,898)	30,221	9,323
Interfund transfer	<u>31,103</u>	<u>(31,103)</u>	<u>-</u>
Fund balance, as of December 31, 2008	<u>\$ 161,509</u>	<u>\$ 67,823</u>	<u>\$ 229,332</u>

See accompanying notes and accountants' report

Starwood Association
Statement of Cash Flows
For the Year Ended December 31, 2008

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues (under) over expenses	\$ (20,898)	\$ 30,221	\$ 9,323
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation expense	30,920	-	30,920
Adjustment to actual	1,758	-	1,758
(Increase) Decrease in assets:			
Assessments receivable	(2,711)	-	(2,711)
Prepaid expenses	(890)	-	(890)
Prepaid income taxes	10	-	10
Increase in liabilities:			
Accounts payable	91	-	91
Deposits	1,001	-	1,001
Assessments received in advance	984	-	984
Net cash provided by operating activities	<u>10,265</u>	<u>30,221</u>	<u>40,485</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	(31,103)	-	(31,103)
Purchase of investments	(74)	(571)	(645)
Net cash used from investing activities	<u>(31,177)</u>	<u>(571)</u>	<u>(31,748)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan to RV storage	(3,887)	3,887	-
Interfund balance	(2,985)	2,985	-
Interfund transfer	31,103	(31,103)	-
Net cash provided (used) by financing activities	<u>24,231</u>	<u>(24,231)</u>	<u>-</u>
NET INCREASE IN CASH	3,319	5,419	8,738
CASH AND CASH EQUIVALENTS, BEGINNING	<u>5,803</u>	<u>38,402</u>	<u>44,205</u>
CASH AND CASH EQUIVALENTS, ENDING	<u><u>\$ 9,122</u></u>	<u><u>\$ 43,821</u></u>	<u><u>\$ 52,943</u></u>

Income taxes paid amounted to \$10.

See accompanying notes and accountants' report

Starwood Association
Notes to Financial Statements
December 31, 2008

Note 1 – Nature of Organization

The Starwood Association was organized on April 28, 1983 under the provisions of the Oregon Planned Community Act and Oregon Non-Profit Corporation Law. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of 178 lots located in Bend, Oregon.

Note 2 – Summary of Significant Accounting Policies

Accounting Method

The Association prepares its year-end financial statements on the accrual basis of accounting. Under this method of accounting, revenue is recognized when assessments are earned, and expenses are recognized when goods or services are received, whether paid or not.

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 Fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

Member 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 Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are 60 days or more delinquent. Any excess assessments at year-end are retained by the Association for use in future years.

Cash Equivalents

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Note 3 – Income Taxes

Homeowner associations may be taxed either as homeowner associations or as nonexempt membership organizations. For the year ended December 31, 2008, the Association elected to be taxed as a non-exempt membership organization. Under that election, the Association generally is taxed only on non-member income, such as interest earnings, at applicable Federal and State tax rates.

Note 4 – Common Property

Real property and common areas acquired by the original homeowners from the developer are not capitalized on the Association's financial statements. Although these properties are owned by the Association, the assets are not recognized under generally accepted accounting principles, due to the fact that the Association will not, in the ordinary course of business, dispose of the property. Common areas are restricted to use by Association members, their tenants, and guests.

Starwood Association
Notes to Financial Statements – Continued
December 31, 2008

Note 5 – Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$67,823 at December 31, 2008, are held in separate accounts and are generally not available for operating purposes.

The Association's board of directors conducted a study in September 2008 to estimate the remaining useful lives and the replacement costs of the common property components. The table included in the compiled supplementary information on Future Major Repairs and Replacements is based on the study.

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.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures, investment income and provision for income taxes, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

Note 6 – RV Storage Loan

The RV storage loan was initiated in December 2005 to provide funds for establishing the RV storage facility with an interest rate of 8%. The loan is repaid from the monthly fees. The loan will be fully paid in 2009. As of December 31, 2008, the loan to RV storage is \$4,210. Interest expense is reported as RV storage expenses in the operation fund and interest income is reported as other income in the replacement fund.

Note 7 – Community Management

The Association employs a community manager to perform accounting and community management functions.

Note 8 – Investments

The Association's investments consist of two Certificates of Deposits. The Association has the positive intent and ability to hold these investments to maturity. The investments are carried on the Association's financial statements at cost plus interest earned. Investments consist of the following as of December 31, 2008.

	<u>Current Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
12 – Month CD	\$16,787	April 11, 2009	2.67%
12 – Month CD	\$2,160	April 11, 2009	2.67%

Note 9 – Deposits

As of December 31, 2008, deposits consist of refundable Architectural deposits and RV storage deposits.

Note 10 – Adjustment to Actual

The adjustment to actual on the cash flow statement appears to be related to an adjustment made to the books and records by the current CPA. This adjustment adjusts the 2008 beginning fund balance and cash.

SUPPLEMENTARY INFORMATION

Starwood Association
Supplementary Information on Future Major Repairs
And Replacements (Compiled)
December 31, 2008

The Association's Board of Directors conducted a reserve study update, in September 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 on the date of the study assuming an annual inflation rate of 3% and a rate of return on investments of 1% without a provision for income taxes. The study used the threshold funding method with a threshold of \$36,193.

The attached excerpt on pages 9 to 12 includes significant information about the components of common property. The reserve study should be read in its entirety.

Replacement Funding Summary for the Year Ended December 31, 2008:

Current year's assessments	
Reserve assessments	\$ 28,300
Amount recommended by reserve study	<u>31,694</u>
Difference	\$ <u>(3,394)</u>
Replacement fund balance at end of year	\$ <u><u>67,823</u></u>

2009 Reserve Study - Current Year and 30 Year Forecast									
as of January 1, 2009 - projects 1% per year increase in contributions									
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Basketball Court									
Circle Trail - renew gravel		2,573.58					2,983.48		
Dogi-Pot Stations (4 of them)									
Fence replacement									
Front Entry Signage/Landscaping	1,100.00								
Fire Fuels Reduction							18,000.00		
Irrigation Pipe (replace as needed)									11,126.96
Mail Boxes - Front									
Mail Boxes - Center									
Message Boards									
Pasture Gates									
Pasture Pressurized Irrigation									
Picnic Tables (replace as needed)									
Playground Sets									
Pond/Irrigation Sys Rehab (pasture)									
Pond/Irrigation Sys Rehab (turf)	18,576.35								
Pump, Driveway Turf					782.86				
Pump, Pasture	1,500.00								
Pumphouse - Big Pond							2,000.00		
Pumphouse - Front Entry			515.00						
Road Repaving (overlay)									
Street Signs									
Turf Irrigation System		11,442.76							
TOTAL	21,176.35	14,016.34	515.00	0.00	782.86	0.00	22,983.48	0.00	11,126.96
Beginning Balance	60,608.54	73,520.79	89,692.50	119,957.27	151,343.84	182,555.59	215,175.15	225,215.59	258,880.74
Reserve Expense	21,176.35	14,016.34	515.00	0.00	782.86	0.00	22,983.48	0.00	11,126.96
Reserve Contributions	33,694.28	29,593.00	29,888.00	30,187.00	30,489.00	30,794.00	31,102.00	31,413.00	31,727.00
Ending Balance	73,520.79	89,692.50	119,957.27	151,343.84	182,555.59	215,175.15	225,215.59	258,880.74	281,958.32
Note: Reserve Contribution for '09 includes RV Park loan repayment									
Note: Assumes 1% interest rate; 3% inflation rate unless current information indicates need for more/less									
Key to formulas:									
Beginning Balance = actual or estimated ending balance from previous year									
Reserve Expense = actual or estimated expense times 1.03 each year to required rehab									
Reserve Contribution = determined by the board									
Ending Balance = actual or estimated beginning balance minus expense, times 1.01, plus contribution									

	2018	2019	2020	2021	2022	2023	2024	2025	2026
Basketball Court						3,507.01			
Circle Trail - renew gravel			3,458.67					4,009.54	
Dogi-Pot Stations (4 of them)							1,996.07		
Fence replacement									
Front Entry Signage/Landscaping									
Fire Fuels Reduction					22,137.72				
Irrigation Pipe (replace as needed)									
Mail Boxes - Front									
Mail Boxes - Center									
Message Boards									
Pasture Gates									800.00
Pasture Pressurized Irrigation									40,456.89
Picnic Tables (replace as needed)								1,674.25	1,724.48
Playground Sets									
Pond/Irrigation Sys Rehab (pasture)									
Pond/Irrigation Sys Rehab (turf)									
Pump, Driveway Turf						1,052.10			
Pump, Pasture		2,015.87							
Pumphouse - Big Pond									
Pumphouse - Front Entry									
Road Repaving (overlay)						428,000.00			
Street Signs									
Turf Irrigation System									
TOTAL	0.00	2,015.87	3,458.67	0.00	22,137.72	432,559.11	1,996.07	5,683.79	42,981.37
Begining Balance	281,958.32	316,821.90	350,319.09	383,018.03	419,863.21	435,048.74	36,193.53	68,554.43	97,854.35
Reserve Expense	0.00	2,015.87	3,458.67	0.00	22,137.72	432,559.11	1,996.07	5,683.79	42,981.37
Reserve Contributions	32,044.00	32,365.00	32,689.00	33,015.00	33,346.00	33,679.00	34,015.00	34,355.00	34,699.00
Ending Balance	316,821.90	350,319.09	383,018.03	419,863.21	435,048.74	36,193.53	68,554.43	97,854.35	90,120.71

	2027	2028	2029	2030	2031	2032	2033	2034	2035
Basketball Court									
Circle Trail - renew gravel				4,648.15					5,388.48
Dogi-Pot Stations (4 of them)									
Fence replacement									
Front Entry Signage/Landscaping									48,969.77
Fire Fuels Reduction			27,226.60						
Irrigation Pipe (replace as needed)	6,695.61								
Mail Boxes - Front									
Mail Boxes - Center									
Message Boards	541.93								
Pasture Gates									
Pasture Pressurized Irrigation									
Picnic Tables (replace as needed)	1,776.21	1,829.50	1,884.38						
Playground Sets									
Pond/Irrigation Sys Rehab (pasture)	2,121.38								
Pond/Irrigation Sys Rehab (turf)			33,550.96						
Pump, Driveway Turf							1,413.94		
Pump, Pasture			2,709.16						
Pumphouse - Big Pond									
Pumphouse - Front Entry					930.14				
Road Repaving (overlay)									
Street Signs						6,863.78			
Turf Irrigation System				22,834.24					
TOTAL	11,135.13	1,829.50	65,371.10	27,482.39	930.14	6,863.78	1,413.94	0.00	54,358.25
Begining Balance	90,120.71	114,821.44	149,517.86	120,738.22	130,296.39	167,128.91	198,701.79	236,462.72	276,401.35
Reserve Expense	11,135.13	1,829.50	65,371.10	27,482.39	930.14	6,863.78	1,413.94	0.00	54,358.25
Reserve Contributions	35,046.00	35,396.00	35,750.00	36,108.00	36,469.00	36,834.00	37,202.00	37,574.00	37,950.00
Ending Balance	114,821.44	149,517.86	120,738.22	130,296.39	167,128.91	198,701.79	236,462.72	276,401.35	262,213.53

	2036	2037	2038	2039		Rehab Cycle(yrs)	Last Rehab.	Next Rehab
Basketball Court						20	2003	2023
Circle Trail - renew gravel						5	2005	2010
Dogi-Pot Stations (4 of them)						20	2004	2024
Fence replacement			60,378.13			30	2008	2038
Front Entry Signage/Landscaping						30	2005	2035
Fire Fuels Reduction	33,485.29					7	2008	2015
Irrigation Pipe (replace as needed)						20	2007	2027
Mail Boxes - Front						30		2017
Mail Boxes - Center		16,126.96				30	2007	2037
Message Boards						20	2007	2027
Pasture Gates						40	1986	2026
Pasture Pressurized Irrigation						20	2006	2026
Picnic Tables (replace as needed)						20	2005	2025
Playground Sets						40	2003	2043
Pond/Irrigation Sys Rehab (pasture)						20	2007	2027
Pond/Irrigation Sys Rehab (turf)						20	2006*	2026
Pump, Driveway Turf						10	2003	2013
Pump, Pasture				3,640.89		10	2007*	2017
Pumphouse - Big Pond						30	1985	2015
Pumphouse - Front Entry						20	1985	2005*
Road Repaving (overlay)						20	2003	2023
Street Signs						30	2002	2032
Turf Irrigation System						20	1990	2010
TOTAL	33,485.29	16,126.96	60,378.13	3,640.89			*Deferred	*Deferred
Beginning Balance	262,213.53	269,344.52	294,462.74	275,525.46				
Reserve Expense	33,485.29	16,126.96	60,378.13	3,640.89				
Reserve Contributions	38,329.00	38,713.00	39,100.00	39,419.00				
Ending Balance	269,344.52	294,462.74	275,525.46	314,022.41				