# STARWOOD ASSOCIATION

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION YEAR ENDED DECEMBER 31, 2009

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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, 2009, 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 July 11, 2010

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# Starwood Association Balance Sheet December 31, 2009

ASSETS	-	Operating Fund	I 	Replacement Fund	; • -	Total
Cash, including interest bearing deposits	\$	15,089	\$	47,051	\$	62,140 26 706
Investments Assessments receivable		2,528 5,983		34,268		36,796 5,983
Prepaid expenses		5,983 917		-		5,985 917
Property and equipment, net of accumulated		917		-		917
depreciation of \$27,222		4,303		-		4,303
Interfund balance		(5,332)		5,332		-
Total assets	\$	23,488	\$	86,651	\$	110,139
LIABILITIES AND FUND BALANCE						
Deposits	\$	1,732	\$	-	\$	1,732
Assessments received in advance		979		-		979
Income taxes payable	-	14		-		14
Total liabilities		2,725		-		2,725
Fund balance	-	20,763	_	86,651		107,414
Total liabilities and fund balance	\$	23,488	\$	86,651	\$	110,139

# Starwood Association Statement of Revenues and Expenses For the Year Ended December 31, 2009

		Operating Fund		Replacement Fund	Total
REVENUES	-		-		
Regular assessments	\$	60,412	\$	29,300	\$ 89,712
Interest		47		1,232	1,279
Late fees		793		-	793
RV storage income		8,942		-	8,942
Other income		1,530	_	184	1,714
Total revenues		71,724	-	30,716	 102,440
EXPENSES					
Property maintenance		9,281		-	9,281
RV storage expense		7,347		11,888	19,235
Utilities		2,013		-	2,013
Landscaping		20,293		-	20,293
Insurance		2,372		-	2,372
Management fees		10,974		-	10,974
Professional fees		3,151		-	3,151
Office expense		1,559		-	1,559
Licenses, permits and fees		101		-	101
Income taxes		150		-	150
Depreciation		2,617		-	2,617
Other		115	_	-	 115
Total expenses	_	59,973	-	11,888	 71,861
Excess of revenues over expenses	\$_	11,751	\$	18,828	\$ 30,579

# Starwood Association Statement of Changes in Fund Balance For the Year Ended December 31, 2009

	 Operating Fund	-	Replacement Fund		Total
Fund balance, as of December 31, 2008, as previously reported	\$ 161,509	\$	67,823	\$	229,332
Prior period adjustment	 (152,497)	-		_	(152,497)
Fund balance, as of December 31, 2008, as restated	9,012		67,823		76,835
Excess of revenues over expenses	 11,751	-	18,828	_	30,579
Fund balance, as of December 31, 2009	\$ 20,763	\$	86,651	\$_	107,414

# Starwood Association Statement of Cash Flows For the Year Ended December 31, 2009

		Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess of revenues over expenses	\$	11,751 \$	18,828 \$	30,579
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
Depreciation expense		2,617	-	2,617
(Increase) Decrease in assets: Assessments receivable Prepaid expenses Prenaid income taxos		(2,938) (27) 136	-	(2,938) (27) 136
Prepaid income taxes		150	-	150
Increase (Decrease) in liabilities: Accounts payable Deposits Assessments received in advance		(91) (1,000) (5)	- -	(91) (1,000) (5)
Income taxes payable		14		14
Net cash provided (used) by operating activities		10,457	18,828	29,285
CASH FLOWS FROM INVESTING ACTIVITIES Purchase of property and equipment Purchase of investments		(2,239) (368)	(17,481)	(2,239) (17,849)
Net cash provided (used) from investing activities		(2,607)	(17,481)	(20,088)
CASH FLOWS FROM FINANCING ACTIVITIES Loan to RV storage Interfund balance		(4,210)	4,210	-
Net cash provided (used) by financing activities		2,327 (1,883)	(2,327)	
The cash provided (used) by infaheing activities	•	(1,003)	1,005	
NET INCREASE IN CASH		5,967	3,230	9,197
CASH AND CASH EQUIVALENTS, BEGINNING	•	9,122	43,821	52,943
CASH AND CASH EQUIVALENTS, ENDING	\$	15,089 \$	47,051 \$	62,140

Income taxes paid amounted to \$0.

# Starwood Association Notes to Financial Statements December 31, 2009

#### 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:

<u>Operating Fund</u> - This fund is used to account for financial resources available for the general operations of the Association.

<u>Replacement Fund</u> - 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.

#### <u>Note 3 – Income Taxes</u>

Homeowner associations may be taxed either as homeowner associations or as nonexempt membership organizations. For the year ended December 31, 2009, 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.

## <u>Note 4 – RV Storage Loan</u>

An 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 was repaid from monthly fees and was fully repaid in the year 2009. Interest expense is reported as RV storage expenses in the operating fund and interest income is reported as other income in the replacement fund.

# Starwood Association Notes to Financial Statements – Continued December 31, 2009

#### <u>Note 5 – Common Property</u>

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. RV storage, security, fencing, and improvements are capitalized on the Associations financial statements and are depreciated using the straight-line method or declining depreciation method.

#### Note 6 – 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 \$86,651 at December 31, 2009, are held in separate accounts and are generally not available for operating purposes.

The Association's board of directors conducted a study in January 2010 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 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 three certificates of deposit. 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, 2009.

	Current Value	Maturity Date	Interest Rate
60 – Month CD	\$25,660	November 16, 2014	3.21%
18 – Month CD	\$8,609	December 12, 2010	2.38%
60 – Month CD	\$2,528	November 16, 2014	3.21%

#### Note 9 – Deposits

As of December 31, 2009, deposits consist of refundable Architectural deposits and RV storage deposits.

## Note 10 – Prior Period Adjustment

The prior period adjustment in effect, removes assets and related accumulated depreciation from the Association's financial statements as of December 31, 2008 due to the fact that the Association will not, in the ordinary course of business, dispose of the assets as explained in Note 4.

# SUPPLEMENTARY INFORMATION

# Starwood Association Supplementary Information on Future Major Repairs And Replacements (Compiled) December 31, 2009

The Association's Board of Directors conducted a reserve study update, in January 2010, 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 \$28,623.

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, 2009:**

Current year's assessments

Reserve assessments Amount recommended by reserve study	\$ 29,300 33,694
Difference	\$ (4,394)
Replacement fund balance at end of year	\$ 86,651

	· · · ·						Year Fore					
	·	as	of Jan. 5, 20	J10 - project	s 1% per yea	ir increase in	o contributio	ns				
н 	2010	2011	2012	2013	2014	2015	2016	2017	2018			
Basketball Court												
Circle Trail (renew gravel)	2,573.58					2,983.48						
Dogi-Pot Stations (4 of them)												
Fence replacement												
Front Entry Signage/Landscaping	-											
Fire Fuels Reduction						18,000.00						
Irrigation Pipe (replace as needed)												
Mail Boxes - Front								11,126.96				
Mail Boxes - Center												
Message Boards												
Pasture Gates								1				
Pasture Pressurized Irrigation												
Picnic Tables (replace as needed)												
Playground Sets												
Pond/Irrigation Sys Rehab (pasture)	1											
Pond/Irrigation Sys Rehab (turf)												
Pump, Driveway Turf				782.86								
Pump, Pasture	1,545.00											
Pumphouse - Big Pond						2,000.00						
Pumphouse - Front Entry		515.00										
Road Repaving (overlay)												
Street Signs												
Turf Irrigation System	11,442.76											
Turf Rehab (1 sec. every 3 Yrs)	2,275.00			2,485.95			2,716.46					
TOTAL	17,836.34	515.00	0.00	3,268.81	0.00	22,983.48	2,716.46	11,126.96	0.00			
Begining Balance	81,319.64	93,711.13	124,016.09	155,443.26	184,185.19	216,821.04	226,877.94	257,816.09	280,883.02			
Reserve Expense	17,836.34	515.00	0.00		0.00				0.00			
Reserve Contributions	29,593.00	29,888.00	30,187.00		30,794.00				32,044.00			
Ending Balance	93,711.13	124,016.09	155,443.26	the second s					315,735.85			
			est rate; 3%	inflaton rate	e unless cur	rent informa	ton indicates	s need for m	ore/less			
	Key to formu											
	Beginning Balance = actual or estimated ending balance from previous year   Reserve Expense = actual or estimated expense times 1.03 each year to required rehab											
		ontribution =										
	Ending Bal	ance = actua	l or estimated	beginning b	alance minus	s expense, tir	nes 1.01, plu	s contribution				

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	2019	2020	2021	2022	2023	2024	2025	2026	2027
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)									6,695.61
Mail Boxes - Front							-		
Mail Boxes - Center									
Message Boards									541.93
Pasture Gates								800.00	
Pasture Pressurized Irrigation								40,456.89	
Picnic Tables (replace as needed)							1,674.25	1,724.48	1,776.21
Playground Sets									
Pond/Irrigation Sys Rehab (pasture)			*						2,121.38
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									
Turf Rehab (1 sec. every 3 Yrs)	2,968.35			3,243.60			3,544.37		
TOTAL	4,984.22	3,458.67	0.00		432,559.11	1,996.07	9,228.16	42,981.37	11,135.13
Begining Balance	315,735.85	346,224.15	378,882.13	415,685.96	427,553.68	28,623.52	60,908.72	86,552.37	78,705.71
Reserve Expense	4,984.22	3,458.67	0.00		432,559.11	1,996.07	9,228.16	42,981.37	11,135.13
Reserve Contributions	32,365.00		33,015.00			34,015.00	34,355.00	34,699.00	35,046.00
Ending Balance	346,224.15	the second s				60,908.72	86,552.37	78,705.71	103,292.28

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	2028	2029	2030	2031	2032	2033	2034	2035	2036
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							33,485.29
Irrigation Pipe (replace as needed)		e							
Mail Boxes - Front									
Mail Boxes - Center									
Message Boards									
Pasture Gates									
Pasture Pressurized Irrigation									
Picnic Tables (replace as needed)	1,829.50	1,884.38							
Playground Sets									
Pond/Irrigation Sys Rehab (pasture)									
Pond/Irrigation Sys Rehab (turf)		33,550.96				1			
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						
Turf Rehab (1 sec. every 3 Yrs)	3,873.03			4,232.16			4,624.60		
TOTAL	5,702.53	65,371.10	27,482.39	5,162.30	6,863.78	1,413.94	4,624.60	54,358.25	33,485.29
Begining Balance	103,292.28	133,961.65	105,026.46	114,427.51	146,826.86	178,196.71	215,752.60	250,813.28	236,369.58
Reserve Expense	5,702.53	65,371.10	27,482.39	5,162.30	6,863.78	1,413.94	4,624.60	54,358.25	33,485.29
Reserve Contributions	35,396.00	35,750.00	36,108.00	36,469.00	36,834.00	37,202.00	37,574.00	37,950.00	38,329.00
Ending Balance	133,961.65	105,026.46	114,427.51	146,826.86	178,196.71	215,752.60	250,813.28	236,369.58	
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						Rehab	Last	Next
	2037	2038	2039	2040	2041	Cycle(yrs)	Rehab.	Rehab
Basketball Court						20	2003	2023
Circle Trail (renew gravel)				6,246.72		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						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	2009	2029
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
Turf Rehab (1 sec. every 3 Yrs)	5,053.43		· · · · · · · · · · · · · · · · · · ·	5,522.02		3	1000	2010
TOTAL	21,180.39	60,378.13	3,640.89	11,768.74			*Deferred	*Deferred
Desision Balance								
Begining Balance			243,743.40					
Reserve Expense	21,180.39			11,768.74				
Reserve Contributions	38,713.00		and the second se	39,419.00				
Ending Balance	262,995.36	243,743.40	281,922.54	312,274.33				

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