

**STARWOOD ASSOCIATION**

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**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
YEAR ENDED DECEMBER 31, 2009**

**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, 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

A handwritten signature in black ink, appearing to read 'Schwindt-60', is written over a horizontal line.

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**Starwood Association**  
**Balance Sheet**  
**December 31, 2009**

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

See accompanying notes and accountants' report

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

	Operating Fund	Replacement Fund	Total
<b>REVENUES</b>			
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
<b>EXPENSES</b>			
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

See accompanying notes and accountants' report

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

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

See accompanying notes and accountants' report

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

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
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	(2,938)	-	(2,938)
Prepaid expenses	(27)	-	(27)
Prepaid income taxes	136	-	136
Increase (Decrease) in liabilities:			
Accounts payable	(91)	-	(91)
Deposits	(1,000)	-	(1,000)
Assessments received in advance	(5)	-	(5)
Income taxes payable	14	-	14
Net cash provided (used) by operating activities	<u>10,457</u>	<u>18,828</u>	<u>29,285</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	(2,239)	-	(2,239)
Purchase of investments	(368)	(17,481)	(17,849)
Net cash provided (used) from investing activities	<u>(2,607)</u>	<u>(17,481)</u>	<u>(20,088)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Loan to RV storage	(4,210)	4,210	-
Interfund balance	2,327	(2,327)	-
Net cash provided (used) by financing activities	<u>(1,883)</u>	<u>1,883</u>	<u>-</u>
<b>NET INCREASE IN CASH</b>	<b>5,967</b>	<b>3,230</b>	<b>9,197</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>9,122</u>	<u>43,821</u>	<u>52,943</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 15,089</u>	<u>\$ 47,051</u>	<u>\$ 62,140</u>

Income taxes paid amounted to \$0.

See accompanying notes and accountants' report

**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:

**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, 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.

**Note 4 – RV Storage Loan**

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**

**Note 5 – 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. 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.

	<u>Current Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
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**

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







