

STARWOOD ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2010

STARWOOD ASSOCIATION

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Members
Starwood Association
Bend, Oregon

We have reviewed the accompanying balance sheet of Starwood Association as of December 31, 2010, and the related statements of revenues and expenses, changes in fund balance and cash flows for the year then ended. 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 is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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 of common property on pages 8 to 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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
April 4, 2011



Starwood Association
Balance Sheet
December 31, 2010

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>Total</u>
ASSETS			
Cash, including interest bearing deposits	\$ 13,246	\$ 76,690	\$ 89,936
Investments	12,610	35,309	47,919
Assessments receivable, net of allowance for doubtful accounts of \$4,336	6,074	-	6,074
Prepaid expenses	944	-	944
Property and equipment, net of accumulated depreciation of \$28,720	2,805	-	2,805
Interfund balance	<u>(5,322)</u>	<u>5,322</u>	<u>-</u>
Total assets	<u>\$ 30,357</u>	<u>\$ 117,321</u>	<u>\$ 147,678</u>
LIABILITIES AND FUND BALANCE			
Assessments received in advance	\$ 2,178	\$ -	\$ 2,178
Income taxes payable	<u>958</u>	<u>-</u>	<u>958</u>
Total liabilities	3,136	-	3,136
Fund balance	<u>27,221</u>	<u>117,321</u>	<u>144,542</u>
Total liabilities and fund balance	<u>\$ 30,357</u>	<u>\$ 117,321</u>	<u>\$ 147,678</u>

See accompanying notes and independent accountants' report

Starwood Association
Statement of Revenues and Expenses
For the Year Ended December 31, 2010

	Operating Fund	Replacement Fund	Total
REVENUES			
Regular assessments	\$ 60,412	\$ 29,300	\$ 89,712
Interest	82	1,370	1,452
Late fees	1,651	-	1,651
RV storage income	9,961	-	9,961
Other income	742	-	742
Total revenues	<u>72,848</u>	<u>30,670</u>	<u>103,518</u>
EXPENSES			
Property maintenance	7,236	-	7,236
RV storage expense	4,515	-	4,515
Utilities	1,866	-	1,866
Landscaping	25,888	-	25,888
Insurance	2,372	-	2,372
Management fees	11,303	-	11,303
Professional fees	2,895	-	2,895
Office expense	1,666	-	1,666
Licenses, permits and fees	50	-	50
Income taxes	1,799	-	1,799
Uncollectible fees	4,336	-	4,336
Depreciation	1,498	-	1,498
Total expenses	<u>65,424</u>	<u>-</u>	<u>65,424</u>
Excess of revenues over expenses	<u>\$ 7,424</u>	<u>\$ 30,670</u>	<u>\$ 38,094</u>

See accompanying notes and independent accountants' report

Starwood Association
Statement of Changes in Fund Balance
For the Year Ended December 31, 2010

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Fund balance, as of December 31, 2009, as previously reported	\$ 20,763	\$ 86,651	\$ 107,414
Prior period adjustment	<u>(966)</u>	<u>-</u>	<u>(966)</u>
Fund balance, as of December 31, 2009, as restated	19,797	86,651	106,448
Excess of revenues over expenses	<u>7,424</u>	<u>30,670</u>	<u>38,094</u>
Fund balance, as of December 31, 2010	<u>\$ 27,221</u>	<u>\$ 117,321</u>	<u>\$ 144,542</u>

See accompanying notes and independent accountants' report

Starwood Association
Statement of Cash Flows
For the Year Ended December 31, 2010

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over expenses	\$ 7,424	\$ 30,670	\$ 38,094
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation expense	1,498	-	1,498
Increase in assets:			
Assessments receivable, net of allowance for doubtful accounts	(91)	-	(91)
Prepaid expenses	(27)	-	(27)
Increase (Decrease) in liabilities:			
Accounts payable	2	-	2
Deposits	(1,732)	-	(1,732)
Assessments received in advance	1,199	-	1,199
Income taxes payable	(25)	-	(25)
Net cash provided by operating activities	<u>8,249</u>	<u>30,670</u>	<u>38,919</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(10,082)	(1,041)	(11,123)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund balance	<u>(10)</u>	<u>10</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	(1,843)	29,639	27,796
CASH AND CASH EQUIVALENTS, BEGINNING	<u>15,089</u>	<u>47,051</u>	<u>62,140</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 13,246</u>	<u>\$ 76,690</u>	<u>\$ 89,936</u>

Income taxes paid amounted to \$1,820.

See accompanying notes and independent accountants' report

Starwood Association
Notes to Financial Statements
December 31, 2010

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.

Allowance for Doubtful Accounts

The Association has provided for an allowance for doubtful accounts as of December 31, 2010, based upon discussion with the Association's community manager regarding the collectability of assessments receivable.

Note 3 – Income Taxes

Homeowner associations may be taxed either as homeowner associations or as nonexempt membership organizations. For the year ended December 31, 2010, 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.

Starwood Association
Notes to Financial Statements – Continued
December 31, 2010

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. 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 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 \$117,321 at December 31, 2010, are held in separate accounts and are generally not available for operating purposes.

The Association's board of directors conducted a study in March 2011 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 – Community Management

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

Note 7 – 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	\$ 26,494	November 16, 2014	3.21%
12 – Month CD	\$ 10,000	November 1, 2011	0.45%
18 – Month CD	\$ 8,815	June 12, 2011	0.35%
60 – Month CD	\$ 2,610	November 16, 2014	3.21%

Note 8 – Date of Board of Directors' Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 4, 2011, the date the financial statements were available to be issued.

Note 9 – Prior Period Adjustment

Prior to the year ended December 31, 2010, the Association reported the income tax expense in the year in which the expense was paid. The prior period adjustment reclassifies the tax expense paid for the year 2009 to the year ended December 31, 2009.

SUPPLEMENTARY INFORMATION

Starwood Association
Supplementary Information on Future Major Repairs
And Replacements (Compiled)
December 31, 2010

The Association's Board of Directors conducted a reserve study update, in March 2011, 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 \$27,868.

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, 2010:

Current year's assessments	
Reserve assessments	\$ 29,300
Amount recommended by reserve study	<u>29,593</u>
Difference	\$ <u>(293)</u>
Replacement fund balance at end of year	\$ <u><u>117,321</u></u>

2011 Reserve Schedule - Current Year and 30 Year Forecast									
as of March 2, 2011 - projects 1% per year increase in contributions									
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Basketball Court									
Circle Trail (renew gravel)	2,650.78					3,072.98			
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									
Pasture Pressurized Irrigation									
Picnic Tables (replace as needed)									
Playground Sets									
Pond/Irrigation Sys Rehab (pasture)									
Pond/Irrigation Sys Rehab (turf)									
Pump, Driveway Turf			782.86						
Pump, Pasture	1,591.35								
Pumphouse - Big Pond					2,000.00				
Pumphouse - Front Entry	515.00								
Road Repaving (overlay)									
Street Signs									
Turf Irrigation System	11,786.04								
Turf Rehab (1 sec. every 3 Yrs)	2,343.25			2,560.52			2,797.95		
TOTAL	18,886.42	0.00	782.86	2,560.52	20,000.00	3,072.98	13,924.91	0.00	0.00
Begining Balance	111,785.77	123,716.34	155,140.51	186,390.22	216,462.00	229,528.62	260,133.20	280,397.37	315,245.34
Reserve Expense	18,886.42	0.00	782.86	2,560.52	20,000.00	3,072.98	13,924.91	0.00	0.00
Reserve Contributions	29,888.00	30,187.00	30,489.00	30,794.00	31,102.00	31,413.00	31,727.00	32,044.00	32,365.00
Ending Balance	123,716.34	155,140.51	186,390.22	216,462.00	229,528.62	260,133.20	280,397.37	315,245.34	350,762.80
Note: Assumes 1% interest rate; 3% inflation									
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									

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	2020	2021	2022	2023	2024	2025	2026	2027	2028
Basketball Court				3,507.01					
Circle Trail (renew gravel)		3,562.41					4,129.82		
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	1,829.50
Playground Sets									
Pond/Irrigation Sys Rehab (pasture)								2,121.38	
Pond/Irrigation Sys Rehab (turf)									
Pump, Driveway Turf				1,052.10					
Pump, Pasture	2,076.34								
Pumphouse - Big Pond									
Pumphouse - Front Entry									
Road Repaving (overlay)				428,000.00					
Street Signs									
Turf Irrigation System									
Turf Rehab (1 sec. every 3 Yrs)	3,057.40			3,340.90			3,650.70		
TOTAL	5,133.74	3,562.41	22,137.72	435,900.01	1,996.07	1,674.25	50,761.89	11,135.13	1,829.50
Begining Balance	350,762.80	381,774.35	415,009.06	430,146.05	27,867.50	60,145.14	93,410.60	77,774.20	102,351.46
Reserve Expense	5,133.74	3,562.41	22,137.72	435,900.01	1,996.07	1,674.25	50,761.89	11,135.13	1,829.50
Reserve Contributions	32,689.00	33,015.00	33,346.00	33,679.00	34,015.00	34,355.00	34,699.00	35,046.00	35,396.00
Ending Balance	381,774.35	415,009.06	430,146.05	27,867.50	60,145.14	93,410.60	77,774.20	102,351.46	136,923.18

See Independent Accountants' Review Report

	2029	2030	2031	2032	2033	2034	2035	2036	2037
Basketball Court									
Circle Trail (renew gravel)			4,787.59					5,550.13	
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)									
Mail Boxes - Front									
Mail Boxes - Center									16,126.96
Message Boards									
Pasture Gates									
Pasture Pressurized Irrigation									
Picnic Tables (replace as needed)	1,884.38								
Playground Sets									
Pond/Irrigation Sys Rehab (pasture)									
Pond/Irrigation Sys Rehab (turf)	33,550.96								
Pump, Driveway Turf					1,413.94				
Pump, Pasture		2,790.43							
Pumphouse - Big Pond									
Pumphouse - Front Entry			930.14						
Road Repaving (overlay)									
Street Signs				6,863.78					
Turf Irrigation System			23,519.26						
Turf Rehab (1 sec. every 3 Yrs)	3,989.22			4,359.12			4,763.33		
TOTAL	66,651.16	2,790.43	29,236.99	11,222.90	1,413.94	0.00	53,733.10	39,035.42	16,126.96
Begining Balance	136,923.18	106,724.74	141,081.65	149,432.11	176,425.30	213,963.48	253,677.11	239,893.45	241,195.61
Reserve Expense	66,651.16	2,790.43	29,236.99	11,222.90	1,413.94	0.00	53,733.10	39,035.42	16,126.96
Reserve Contributions	35,750.00	36,108.00	36,469.00	36,834.00	37,202.00	37,574.00	37,950.00	38,329.00	38,713.00
Ending Balance	106,724.74	141,081.65	149,432.11	176,425.30	213,963.48	253,677.11	239,893.45	241,195.61	266,032.34

	2038
Basketball Court	
Circle Trail (renew gravel)	
Dogi-Pot Stations (4 of them)	
Fence replacement	60,378.13
Front Entry Signage/Landscaping	
Fire Fuels Reduction	
Irrigation Pipe (replace as needed)	
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)	
Pump, Driveway Turf	
Pump, Pasture	
Pumphouse - Big Pond	
Pumphouse - Front Entry	
Road Repaving (overlay)	
Street Signs	
Turf Irrigation System	
Turf Rehab (1 sec. every 3 Yrs)	5,205.03
TOTAL	65,583.16
Begining Balance	266,032.34
Reserve Expense	65,583.16
Reserve Contributions	39,100.00
Ending Balance	241,553.67

See Independent Accountants' Review Report