

**STARWOOD ASSOCIATION**

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**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2011**

**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, 2011, 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.

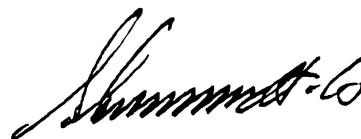
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation 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 9 to 14 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  
July 31, 2012



**Starwood Association**  
**Balance Sheet**  
**December 31, 2011**

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash, including interest bearing deposits	\$ 22,614	\$ 106,845	\$ 129,459
Investments	12,741	36,200	48,941
Assessments receivable, net of allowance for doubtful accounts of \$4,551	4,848	-	4,848
Prepaid expenses	973	-	973
Property and equipment, net of accumulated depreciation of \$30,218	1,307	-	1,307
Interfund balance	(5,083)	5,083	-
Total assets	<u>\$ 37,400</u>	<u>\$ 148,128</u>	<u>\$ 185,528</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Accounts payable	\$ 2,282	\$ -	\$ 2,282
Assessments received in advance	1,985	-	1,985
Income taxes payable	150	-	150
Total liabilities	<u>4,417</u>	<u>-</u>	<u>4,417</u>
Fund balance	<u>32,983</u>	<u>148,128</u>	<u>181,111</u>
Total liabilities and fund balance	<u>\$ 37,400</u>	<u>\$ 148,128</u>	<u>\$ 185,528</u>

See accompanying notes and independent accountants' report.

**Starwood Association**  
**Statement of Revenues and Expenses**  
**For the Year Ended December 31, 2011**

	Operating Fund	Replacement Fund	Total
<b>REVENUES</b>			
Regular assessments	\$ 55,612	\$ 29,888	\$ 85,500
Interest	90	1,199	1,289
Late fees	76	-	76
RV storage income	9,499	-	9,499
Other income	1,069	-	1,069
Total revenues	<u>66,346</u>	<u>31,087</u>	<u>97,433</u>
<b>EXPENSES</b>			
Property maintenance	9,644	-	9,644
Major repairs and replacements	-	280	280
RV storage expense	1,587	-	1,587
Utilities	2,486	-	2,486
Landscaping	25,627	-	25,627
Insurance	2,440	-	2,440
Management fees	11,642	-	11,642
Professional fees	2,945	-	2,945
Office expense	1,658	-	1,658
Licenses, permits and fees	50	-	50
Income taxes	150	-	150
Uncollectible fees	1,347	-	1,347
Depreciation	1,498	-	1,498
Other	610	-	610
Total expenses	<u>61,684</u>	<u>280</u>	<u>61,964</u>
Excess of revenues over expenses	<u>\$ 4,662</u>	<u>\$ 30,807</u>	<u>\$ 35,469</u>

See accompanying notes and independent accountants' report.

**Starwood Association**  
**Statement of Changes in Fund Balance**  
**For the Year Ended December 31, 2011**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Fund balance, as of December 31, 2010, as previously stated	\$ 27,221	\$ 117,321	\$ 144,542
Prior period adjustment	<u>1,100</u>	<u>-</u>	<u>1,100</u>
Fund balance, as of December 31, 2010, as restated	28,321	117,321	145,642
Excess of revenues over expenses	<u>4,662</u>	<u>30,807</u>	<u>35,469</u>
Fund balance, as of December 31, 2011	<u>\$ 32,983</u>	<u>\$ 148,128</u>	<u>\$ 181,111</u>

See accompanying notes and independent accountants' report.

**Starwood Association**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2011**

	Operating Fund	Replacement Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess of revenues over expenses	\$ 4,662	\$ 30,807	\$ 35,469
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation expense	1,498	-	1,498
Decrease (Increase) in assets:			
Assessments receivable, net of allowance for doubtful accounts	1,227	-	1,227
Tax refund receivable	291	-	291
Prepaid expenses	(29)	-	(29)
Increase (Decrease) in liabilities:			
Accounts payable	2,282	-	2,282
Assessments received in advance	(193)	-	(193)
Net cash provided by operating activities	9,738	30,807	40,545
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investments	(131)	(891)	(1,022)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Interfund balance	(239)	239	-
<b>NET INCREASE IN CASH</b>	9,368	30,155	39,523
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	13,246	76,690	89,936
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	\$ 22,614	\$ 106,845	\$ 129,459

Income taxes paid amounted to \$150.

Income taxes refunded amounted to \$291.

See accompanying notes and independent accountants' report.

**Starwood Association**  
**Notes to Financial Statements**  
**December 31, 2011**

**Note 1 – Nature of Organization**

The Starwood Association was organized on March 22, 1984 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 quarterly 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, 2011, based upon discussion with the Association's community manager regarding the collectability of assessments receivable. The Association considers assessments receivable collectible until the unit has been foreclosed or the unit owner has filed for bankruptcy.

**Note 3 – Income Taxes**

Homeowner associations may be taxed either as homeowner associations or as nonexempt membership organizations. For the year ended December 31, 2011, 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, 2011**

**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. The Association capitalizes all personal property acquisitions and improvements to common property related to recreational vehicle storage with a cost greater than \$2,000.

Property and equipment as of December 31, 2011 consisted of recreational vehicle security, fencing and improvements. Recreational vehicle assets capitalized on the Association's financial statements are depreciated using the straight-line 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 aggregated \$148,128 as of December 31, 2011, are held in separate accounts and are generally not available for operating purposes. The Oregon Planned Community Act restricts the permanent transfer of funds from the Replacement Fund.

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 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 certificates of deposit. The Association has the positive intent and ability to hold these investments to maturity. The investments are recorded on the Association's financial statements at cost plus interest earned. Investments consisted of the following as of December 31, 2011.

	<u>Balance</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
60 – Month CD	\$ 27,354	November 16, 2014	3.25%
60 – Month CD	\$ 10,046	November 9, 2016	1.45%
18 – Month CD	\$ 8,846	June 12, 2012	0.35%
60 – Month CD	\$ 2,695	November 16, 2014	3.25%

**Starwood Association**  
**Notes to Financial Statements – Continued**  
**December 31, 2011**

**Note 8 – Other Income**

Other income consisted of RV Administration Fees, fine income and interest penalties.

**Note 9 – Prior Period Adjustment**

During the year ended December 31, 2011, the Association recorded a prior period adjustment for tax expense that was over-accrued during the year ended December 31, 2010. The effect of this adjustment was a \$1,100 increase to the operating fund balance.

**Note 10 – Date of Board of Directors' Review**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 31, 2012, the date the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

**Starwood Association**  
**Supplementary Information on Future Major Repairs**  
**And Replacements (Compiled)**  
**December 31, 2011**

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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 10 to 14 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, 2011:**

Current year's assessments	
Reserve assessments	\$ 29,888
Amount recommended by reserve study	<u>29,888</u>
Difference	\$ <u><u>-</u></u>
Replacement fund balance at end of year	\$ <u><u>148,128</u></u>



	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		
<b>TOTAL</b>	<b>5,133.74</b>	<b>3,562.41</b>	<b>22,137.72</b>	<b>435,900.01</b>	<b>1,996.07</b>	<b>1,674.25</b>	<b>50,761.89</b>	<b>11,135.13</b>	<b>1,829.50</b>
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

	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									16,126.96
Mail Boxes - Center									
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		
<b>TOTAL</b>	<b>66,651.16</b>	<b>2,790.43</b>	<b>29,236.99</b>	<b>11,222.90</b>	<b>1,413.94</b>	<b>0.00</b>	<b>53,733.10</b>	<b>39,035.42</b>	<b>16,126.96</b>
Beginning 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

See Independent Accountants' Review Report

	<b>2038</b>
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
<b>TOTAL</b>	<b>65,583.16</b>
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



	2039	2040	2041	2042	Rehab Cycle(yrs)	Last Rehab.	Next Rehab
Basketball Court					20	2003	2023
Circle Trail (renew gravel)			6,434.12		5	2005	2011
Dogi-Pot Stations (4 of them)					20	2004	2024
Fence replacement					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		2037
Mail Boxes - Center					30	2007	2017
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		3,750.11			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)			5,687.68		3		2011
<b>TOTAL</b>	<b>0.00</b>	<b>3,750.11</b>				<b>*Deferred</b>	<b>*Deferred</b>
Begining Balance	241,553.67	283,388.21					
Reserve Expense	0.00	3,750.11					
Reserve Contributions	39,419.00	39,419.00					
Ending Balance	283,388.21	321,853.48					

See Independent Accountants' Review Report