

STARWOOD ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2012

Starwood Association

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INDEPENDENT ACCOUNTANT'S 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, 2012, 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.

Accounting principles generally accepted in the United States of America requires that the information about future major repairs and replacements of common property on pages 8 to 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The required supplementary information has been compiled from information that is the representation of management. We have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion or provide any assurance on it.

September 25, 2013
Portland, Oregon



Starwood Association
Balance Sheet
December 31, 2012

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
ASSETS			
Cash, including interest bearing deposits	\$ 17,581	\$ 131,728	\$ 149,309
Investments	17,820	37,149	54,969
Assessments receivable, net of allowance for doubtful accounts of \$5,532	2,845	-	2,845
Prepaid expenses	973	-	973
Property and equipment, net of accumulated depreciation of \$31,045	480	-	480
Interfund balance	<u>(5,308)</u>	<u>5,308</u>	<u>-</u>
Total assets	<u>\$ 34,391</u>	<u>\$ 174,185</u>	<u>\$ 208,576</u>
LIABILITIES AND FUND BALANCE			
Accounts payable	\$ 1,588	\$ -	\$ 1,588
Assessments received in advance	<u>2,113</u>	<u>-</u>	<u>2,113</u>
Total liabilities	3,701	-	3,701
Fund balance	<u>30,690</u>	<u>174,185</u>	<u>204,875</u>
Total liabilities and fund balance	<u>\$ 34,391</u>	<u>\$ 174,185</u>	<u>\$ 208,576</u>

See accompanying notes and independent accountant's review report.

Starwood Association
Statement of Revenues and Expenses
For the Year Ended December 31, 2012

	Operating Fund	Replacement Fund	Total
REVENUES			
Regular assessments	\$ 55,493	\$ 29,888	\$ 85,381
Interest	401	1,529	1,930
RV storage income	9,524	-	9,524
Other income	170	-	170
Total revenues	<u>65,588</u>	<u>31,417</u>	<u>97,005</u>
EXPENSES			
Property maintenance	12,712	-	12,712
Major repairs and replacements	-	5,360	5,360
RV storage expense	4,836	-	4,836
Utilities	1,968	-	1,968
Landscaping	26,424	-	26,424
Insurance	2,336	-	2,336
Management fees	11,670	-	11,670
Professional fees	2,283	-	2,283
Office expense	2,482	-	2,482
Licenses, permits and fees	50	-	50
Uncollectible fees	1,708	-	1,708
Depreciation	827	-	827
Other	585	-	585
Total expenses	<u>67,881</u>	<u>5,360</u>	<u>73,241</u>
Excess of revenues over (under) expenses	<u>\$ (2,293)</u>	<u>\$ 26,057</u>	<u>\$ 23,764</u>

See accompanying notes and independent accountant's review report.

Starwood Association
Statement of Changes in Fund Balance
For the Year Ended December 31, 2012

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Fund balance, as of December 31, 2011	\$ 32,983	\$ 148,128	\$ 181,111
Excess of revenues over (under) expenses	<u>(2,293)</u>	<u>26,057</u>	<u>23,764</u>
Fund balance, as of December 31, 2012	\$ <u>30,690</u>	\$ <u>174,185</u>	\$ <u>204,875</u>

See accompanying notes and independent accountant's review report.

Starwood Association
Statement of Cash Flows
For the Year Ended December 31, 2012

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over (under) expenses	\$ (2,293)	\$ 26,057	\$ 23,764
Adjustments to reconcile excess of revenues over (under) expenses to net cash provided (used) by operating activities:			
Depreciation expense	827	-	827
Decrease (Increase) in assets:			
Assessments receivable, net of allowance for doubtful accounts	2,003	-	2,003
Increase (Decrease) in liabilities:			
Accounts payable	(694)	-	(694)
Assessments received in advance	128	-	128
Income taxes payable	(150)	-	(150)
Net cash provided (used) by operating activities	<u>(179)</u>	<u>26,057</u>	<u>25,878</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(5,079)	(949)	(6,028)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund balance	<u>225</u>	<u>(225)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	(5,033)	24,883	19,850
CASH AND CASH EQUIVALENTS, BEGINNING	<u>22,614</u>	<u>106,845</u>	<u>129,459</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 17,581</u>	<u>\$ 131,728</u>	<u>\$ 149,309</u>

Income taxes paid amounted to \$150.

See accompanying notes and independent accountant's review report.

Starwood Association
Notes to Financial Statements
December 31, 2012

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 project including but not limited to, items detailed in the supplementary information. 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, 2012. The Association generally 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, 2012, the Association elected to be taxed as a homeowner association. Under that election, the Association generally is taxed only on non-exempt income, such as interest earnings, at applicable federal and state tax rates. The association files returns in the U.S. federal jurisdiction as well as the state of Oregon jurisdiction. Generally, tax filings are subject to federal and state examination for three years after they are filed. The returns filed for periods ended December 31, 2009 and prior are no longer subject to examination by tax authorities.

Starwood Association
Notes to Financial Statements – Continued
December 31, 2012

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.

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 \$174,185 at December 31, 2012, 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 June 2012 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 - 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, 2012:

	<u>Balance</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
60 – Month CD	\$ 28,243	November 16, 2014	3.210%
60 – Month CD	\$ 2,782	November 16, 2014	3.210%
60 – Month CD	\$ 8,906	June 12, 2017	0.996%
60 – Month CD	\$ 15,038	July 20, 2017	0.996%

Note 7 - Date of Board of Directors' Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through September 25, 2013, 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, 2012

The Association's Board of Directors conducted a reserve study in June 2012 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from actual or estimated expenses. 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 3.0% and a rate of return on investments of 1.0% without a provision for income taxes. The study used the threshold-funding method with a threshold of \$24,559.

The attached excerpt pages 9 to 13 include 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, 2012:

Current year's assessments	
Reserve assessments	\$ 30,187
Amount recommended by reserve study	<u>29,888</u>
Difference	\$ <u>299</u>
Replacement fund balance at end of year	\$ <u>174,185</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			
Playground Sets									
Pond/Irrigation Sys Rehab (pasture)								2,121.38	
Pond/Irrigation Sys Rehab (turf)									
Pump, Driveway Turf				1,052.10					
Pump, Pasture			2,202.79						
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			3,760.22		
TOTAL	3,057.40	3,562.41	24,340.51	435,900.01	1,996.07	1,674.25	49,146.93	9,358.92	0.00
Begining Balance	347,666.58	380,744.27	413,968.68	426,870.45	24,559.15	56,803.71	90,035.75	75,996.71	102,350.17
Reserve Expense	3,057.40	3,562.41	24,340.51	435,900.01	1,996.07	1,674.25	49,146.93	9,358.92	0.00
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	380,744.27	413,968.68	426,870.45	24,559.15	56,803.71	90,035.75	75,996.71	102,350.17	138,769.67

See Independent Accountant's 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)						8,234.76			
Mail Boxes - Front									16,126.96
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)	33,550.96								
Pump, Driveway Turf					1,413.94				
Pump, Pasture				2,960.37					
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	64,766.78	0.00	29,236.99	14,183.27	1,413.94	8,234.76	53,733.10	39,035.42	16,126.96
Begining Balance	138,769.67	110,492.92	147,705.85	156,122.55	180,192.67	217,768.52	249,203.10	235,374.70	236,631.67
Reserve Expense	64,766.78	0.00	29,236.99	14,183.27	1,413.94	8,234.76	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	110,492.92	147,705.85	156,122.55	180,192.67	217,768.52	249,203.10	235,374.70	236,631.67	261,422.76

See Independent Accountant's Review Report

	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	261,422.76
Reserve Expense	65,583.16
Reserve Contributions	39,100.00
Ending Balance	236,897.99

	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)			10,127.71		20	2007	2027
Mail Boxes - Front					30		2017
Mail Boxes - Center					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	2043
Pump, Pasture				3,978.49	10	2007*	2017
Pumphouse - Big Pond					30	1985	2015
Pumphouse - Front Entry			1,250.03		20	2011	2041
Road Repaving (overlay)					20	2003	2023
Street Signs					30	2002	2032
Turf Irrigation System					20	2011	2031
Turf Rehab (1 sec. every 3 Yrs)			5,687.68		3		2044
TOTAL	0.00	0.00	23,499.54	3,978.49			
Beginning Balance	236,897.99	278,685.97	320,891.83	339,785.21			
Reserve Expense	0.00	0.00	23,499.54	3,978.49			
Reserve Contributions	39,419.00	39,419.00	39,419.00	39,419.00			
Ending Balance	278,685.97	320,891.83	339,785.21	378,583.79			

See Independent Accountant's Review Report