

STARWOOD ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2014

Starwood Association

Table of Contents

INDEPENDENT ACCOUNTANT’S REVIEW REPORT 1

FINANCIAL STATEMENTS

 Balance Sheet 2

 Statement of Revenues and Expenses 3

 Statement of Changes in Fund Balance..... 4

 Statement of Cash Flows..... 5

 Notes to Financial Statements..... 6-8

SUPPLEMENTARY INFORMATION

 Supplementary Information on Future Major Repairs and Replacements (Compiled)..... 9-10

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, 2014, 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 9 and 10 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.

Portland, Oregon
July 2, 2015



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Starwood Association
Balance Sheet
December 31, 2014

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
ASSETS			
Cash, including interest bearing deposits	\$ 27,689	\$ 95,369	\$ 123,058
Investments	18,306	129,906	148,212
Assessments receivable, net of allowance for doubtful accounts of \$6,492	5,637	-	5,637
Prepaid expenses	1,421	-	1,421
Property and equipment, net of accumulated depreciation of \$31,365	160	-	160
Interfund balance	<u>(5,440)</u>	<u>5,440</u>	<u>-</u>
Total assets	<u>\$ 47,773</u>	<u>\$ 230,715</u>	<u>\$ 278,488</u>
LIABILITIES AND FUND BALANCE			
Accounts payable	\$ 305	\$ -	\$ 305
ARC deposits	1,000	-	1,000
Assessments received in advance	<u>4,160</u>	<u>-</u>	<u>4,160</u>
Total liabilities	5,465	-	5,465
Fund balance	<u>42,308</u>	<u>230,715</u>	<u>273,023</u>
Total liabilities and fund balance	<u>\$ 47,773</u>	<u>\$ 230,715</u>	<u>\$ 278,488</u>

See accompanying notes and independent accountant's review report.

Starwood Association
Statement of Revenues and Expenses
For the Year Ended December 31, 2014

	Operating Fund	Replacement Fund	Total
REVENUES			
Regular assessments	\$ 53,185	\$ 32,174	\$ 85,359
Interest	246	1,687	1,933
RV storage income	11,510	-	11,510
Other income	1,356	-	1,356
Total revenues	<u>66,297</u>	<u>33,861</u>	<u>100,158</u>
EXPENSES			
Property maintenance	13,566	-	13,566
Major repairs and replacements	-	7,580	7,580
RV storage expense	8,011	-	8,011
Utilities	1,926	-	1,926
Landscaping	19,306	-	19,306
Insurance	2,874	-	2,874
Management fees	12,000	-	12,000
Professional fees	5,005	-	5,005
Office expense	2,115	-	2,115
Licenses, permits and fees	50	-	50
Uncollectible fees	850	-	850
Depreciation	160	-	160
Other	204	-	204
Total expenses	<u>66,067</u>	<u>7,580</u>	<u>73,647</u>
Excess of revenues over expenses	<u>\$ 230</u>	<u>\$ 26,281</u>	<u>\$ 26,511</u>

See accompanying notes and independent accountant's review report.

Starwood Association
Statement of Changes in Fund Balance
For the Year Ended December 31, 2014

	Operating Fund	Replacement Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Fund balance, as of December 31, 2013	\$ 42,078	\$ 204,434	\$ 246,512
Excess of revenues over expenses	<u>230</u>	<u>26,281</u>	<u>26,511</u>
Fund balance, as of December 31, 2014	\$ <u>42,308</u>	\$ <u>230,715</u>	\$ <u>273,023</u>

See accompanying notes and independent accountant's review report.

Starwood Association
Statement of Cash Flows
For the Year Ended December 31, 2014

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over expenses	\$ 230	\$ 26,281	\$ 26,511
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation expense	160	-	160
Decrease (Increase) in assets:			
Assessments receivable, net of allowance for doubtful accounts	291	-	291
Prepaid expenses	(326)	-	(326)
Increase (Decrease) in liabilities:			
Accounts payable	(205)	-	(205)
Deposits	1,000	-	1,000
Assessments received in advance	3,000	-	3,000
Net cash provided by operating activities	<u>4,150</u>	<u>26,281</u>	<u>30,431</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned on investments	(245)	(1,572)	(1,817)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund balance	<u>(2,588)</u>	<u>2,588</u>	<u>-</u>
NET INCREASE IN CASH	1,317	27,297	28,614
CASH AND CASH EQUIVALENTS, BEGINNING	<u>26,372</u>	<u>68,072</u>	<u>94,444</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 27,689</u>	<u>\$ 95,369</u>	<u>\$ 123,058</u>

See accompanying notes and independent accountant's review report.

Starwood Association
Notes to Financial Statements
December 31, 2014

Note 1 - Nature of Organization

The Starwood Association was organized on March 22, 1984 under the provisions of the Oregon Non-Profit Corporation Act. 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.

Allowance for Doubtful Accounts

The Association has provided for an allowance for doubtful accounts as of December 31, 2014. The Association generally considers assessments receivable collectible until the unit has been foreclosed or the unit owner has filed for bankruptcy.

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.

Capitalization and Depreciation

The Association records capitalized assets at cost and depreciation on the straight-line basis over the useful life of the asset.

Starwood Association
Notes to Financial Statements – Continued
December 31, 2014

Note 3 - Income Taxes

Homeowner associations may be taxed either as homeowner associations or as nonexempt membership organizations. For the year ended December 31, 2014, 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, 2011 and prior are no longer subject to examination by tax authorities.

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's informal policy is to capitalize all personal property acquisitions and improvements to common property related to recreational vehicle storage with a cost greater than \$2,000 and to expense all other personal property acquisitions of less than \$4,000. As of December 31, 2014, property and equipment of \$31,525 was reported on the balance sheet net of accumulated depreciation of \$31,365.

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 \$230,715 at December 31, 2014, are generally not available for operating purposes. The Oregon Planned Community Act restricts the permanent transfer of funds from the replacement fund.

The Association engaged its management company to conduct a study in January 2015 to estimate the remaining useful lives and the replacement costs of the common property components. The excerpt 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, 2014:

	<u>Balance</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
6 – Month CD	\$ 90,714	February 26, 2015	0.300%
60 – Month CD	\$ 30,108	November 16, 2019	0.450%
60 – Month CD	\$ 2,966	November 16, 2019	0.450%
60 – Month CD	\$ 9,085	June 12, 2017	0.996%
60 – Month CD	\$ 15,339	July 20, 2017	0.996%

See Independent Accountant's Review Report

Starwood Association
Notes to Financial Statements – Continued
December 31, 2014

Note 7 - Interfund Balance

At December 31, 2014, the operating fund owed the replacement fund \$5,440.

Note 8 - Other Income

Other income included amounts charged to owners for finance charges on late fees, fines and RV administration fees.

Note 9 - 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 2, 2015, 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, 2014

The Association engaged its management company who conducted a reserve study update in January 2015 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from actual 2014 invoice charges adjusted for inflation, consultant measurements, and the Association's previous reserve study. The consultant's review of the Association's roads included an on-site physical analysis. 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 1.5% and a rate of return of 0.30% on certificates of deposits and 0.15% on the money market account, without a provision for income taxes. The study used the threshold-funding method with a threshold of \$84,797.

The attached excerpt on page 10 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, 2014:

Current year's assessments	
Reserve assessments	\$ 32,174
Amount recommended by reserve study	<u>32,174</u>
Difference	\$ <u><u>-</u></u>
Replacement fund balance at end of year	\$ <u><u>230,715</u></u>

Starwood Association Reserve Study
Annual Cost in 2014 Dollars
1/29/15

		Quantity	Frequency	Last	Nest	Cost/Unit	Cost in	
Expenditure		In Years	Done	Done		2014 \$	Cost/Year	
Asphalt Overlay w Armour Rock		Sq. Feet						
Starwood Drive		107390	20	2003	2023	\$0.85	\$91,282	\$4,564
Northstar Way		31769	20	2003	2023	\$0.85	\$27,004	\$1,350
Northstar Circle		6637	20	2003	2025	\$0.85	\$5,641	\$282
Solstice Court		8845	20	2003	2025	\$0.85	\$7,518	\$376
Solstice Drive		22074	20	2003	2023	\$0.85	\$18,763	\$938
Lyra Drive		36390	20	2003	2024	\$0.85	\$30,932	\$1,547
Saros Lane		31067	20	2003	2024	\$0.85	\$26,407	\$1,320
S. Loop Place		7866	20	2003	2025	\$0.85	\$6,686	\$334
Mira Circle		10137	20	2003	2025	\$0.85	\$8,616	\$431
Alcor Place		13825	20	2003	2025	\$0.85	\$11,751	\$588
Dione Way		21421	20	2003	2024	\$0.85	\$18,208	\$910
Arago Circle		9826	20	2003	2025	\$0.85	\$8,352	\$418
	Total	307247						\$13,058
Seal Coat Roads								
Starwood Drive		107390	7		2015	\$0.17	\$18,256	\$2,608
Northstar Way		31769	7		2015	\$0.17	\$5,401	\$772
Northstar Circle		6637	7		2017	\$0.17	\$1,128	\$161
Solstice Court		8845	7		2017	\$0.17	\$1,504	\$215
Solstice Drive		22074	7		2015	\$0.17	\$3,753	\$536
Lyra Drive		36390	7		2016	\$0.17	\$6,186	\$884
Saros Lane		31067	7		2016	\$0.17	\$5,281	\$754
S. Loop Place		7866	7		2017	\$0.17	\$1,337	\$191
Mira Circle		10137	7		2017	\$0.17	\$1,723	\$246
Alcor Place		13825	7		2017	\$0.17	\$2,350	\$336
Dione Way		21421	7		2016	\$0.17	\$3,642	\$520
Arago Circle		9826	7		2017	\$0.17	\$1,670	\$239
	Total	307247						\$7,462
Storage Shed			30	2014	2044		\$7,580	\$252.67
Basketball Court			20	2003	2023		\$2,993	\$150
Circle Trail (gravel)			5	2005	2016		\$2,773	\$555
Dog-Pot Stations		4	20	2004	2024	\$359	\$1,436	\$72
Fence Replacement			30	2008	2038		\$28,013	\$934
Front Entry Signage, Landscape			30	2005	2035		\$5,089	\$170
Fire Fuels Reduction			7	2008	2015		\$18,000	\$2,571
Irrigation Pipe			20	2008	2038		\$5,512	\$276
Mail Boxes-Front			30		2017		\$12,043	\$401
Mail Boxes- Center			30	2007	2037		\$12,043	\$401
Message Boards			20	2007	2027		\$530	\$27
Pasture Gates			40	1986	2026		\$656	\$16
Pasture Pressurized Irrigation			20	2006	2026		\$33,189	\$1,659
Picnic Tables			20	2005	2025		\$1,401	\$70
Playground Sets			40	2003	2043		\$500	\$13
Pond/Irrigation Sys Rehab (pasture)			20	2007	2027		\$1,706	\$85
Pond/Irrigation Sys Rehab (turf)			20	2009	2029		\$25,936	\$1,297
Pump, Driveway Turf			10	2013	2023		\$839	\$84
Pump, Pasture			10	2007	2017		\$1,739	\$174
Pumphouse- Big Pond			30	1985	2015		\$2,000	\$67
Pumphouse-Front Entry			20	2011	2031		\$691	\$35
Street Signs			30	2002	2032		\$5,000	\$167
Turf Irrigation System			20	2011	2032		\$17,132	\$857
Turf Rehab (1 section every 3 years)			3		2017		\$2,689	\$896
	Total							\$11,228
Grand Total								\$31,747

See Independent Accountant's Review Report