

STARWOOD ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2016

Starwood Association

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A Professional Corporation
Members American Institute of
Certified Public Accountants /
Oregon Society of Certified Public
Accountants

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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

We have reviewed the accompanying financial statements of Starwood Association, which comprise the balance sheet as of December 31, 2016, and the related statements of revenues and expenses, changes in fund balance, and cash flows for the year then ended, and the related notes to the financial statements. 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's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion on the Financial Statements

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 accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on pages 9 through 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have compiled the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA; however, we have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on it.

Portland, Oregon
September 7, 2017

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Starwood Association
Balance Sheet
December 31, 2016

	Operating Fund	Replacement Fund	Total
ASSETS			
Cash, including interest bearing deposits	\$ 8,579	\$ 119,330	\$ 127,909
Investments	-	130,985	130,985
Assessments receivable, net of allowance for doubtful accounts of \$6,677	5,063	-	5,063
Prepaid insurance	2,436	-	2,436
Other prepaid expenses	1,060	-	1,060
Interfund balance	(5,364)	5,364	-
Total assets	\$ 11,774	\$ 255,679	\$ 267,453
LIABILITIES AND FUND BALANCE			
Accounts payable	\$ 12	\$ -	\$ 12
Deposits	500	-	500
Assessments received in advance	2,131	-	2,131
Total liabilities	2,643	-	2,643
Fund balance	9,131	255,679	264,810
Total liabilities and fund balance	\$ 11,774	\$ 255,679	\$ 267,453

See accompanying notes and independent accountant's review report.

Starwood Association
Statement of Revenues and Expenses
For the Year Ended December 31, 2016

	Operating Fund	Replacement Fund	Total
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Regular assessments	\$ 63,624	\$ 32,496	\$ 96,120
Interest	-	747	747
RV storage income	12,475	-	12,475
Other income	372	-	372
Total revenues	<u>76,471</u>	<u>33,243</u>	<u>109,714</u>
EXPENSES			
Property maintenance	9,903	-	9,903
Major repairs and replacements	-	23,471	23,471
RV storage expense	4,633	-	4,633
Utilities	2,793	-	2,793
Landscaping	24,793	-	24,793
Insurance	2,433	-	2,433
Management fees	12,420	-	12,420
Professional fees	9,841	-	9,841
Office expense	2,361	-	2,361
Licenses, permits and fees	50	-	50
Uncollectible fees	540	-	540
Other expense	91	-	91
Total expenses	<u>69,858</u>	<u>23,471</u>	<u>93,329</u>
Excess of revenues over expenses	<u>\$ 6,613</u>	<u>\$ 9,772</u>	<u>\$ 16,385</u>

See accompanying notes and independent accountant's review report.

Starwood Association
Statement of Changes in Fund Balance
For the Year Ended December 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Fund balance, as of December 31, 2015	\$ 2,518	\$ 245,907	\$ 248,425
Excess of revenues over expenses	<u>6,613</u>	<u>9,772</u>	<u>16,385</u>
Fund balance, as of December 31, 2016	<u>\$ 9,131</u>	<u>\$ 255,679</u>	<u>\$ 264,810</u>

See accompanying notes and independent accountant's review report.

Starwood Association
Statement of Cash Flows
For the Year Ended December 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over expenses	\$ 6,613	\$ 9,772	\$ 16,385
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Decrease (Increase) in assets:			
Assessments receivable, net of allowance for doubtful accounts	1,999	-	1,999
Prepaid insurance	(3)	-	(3)
Other prepaid expenses	(25)	-	(25)
Increase (Decrease) in liabilities:			
Accounts payable	(1,508)	-	(1,508)
Deposits	500	-	500
Assessments received in advance	(677)	-	(677)
Net cash provided by operating activities	<u>6,899</u>	<u>9,772</u>	<u>16,671</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned on investments	<u>-</u>	<u>(580)</u>	<u>(580)</u>
NET INCREASE IN CASH	6,899	9,192	16,091
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,680</u>	<u>110,138</u>	<u>111,818</u>
CASH AND CASH EQUIVALENTS, ENDING	<u><u>\$ 8,579</u></u>	<u><u>\$ 119,330</u></u>	<u><u>\$ 127,909</u></u>

See accompanying notes and independent accountant's review report.

Starwood Association
Notes to Financial Statements
December 31, 2016

Note 1 - Nature of Organization

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 development 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 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. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. 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, 2016. 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 statement 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, 2016

Note 3 - Income Taxes

Homeowner associations may be taxed either as homeowner associations or as nonexempt membership organizations. For the year ended December 31, 2016, 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. Tax filings are subject to federal and state examination for three years after they are filed. The returns filed for periods ended December 31, 2013 and prior are generally 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, 2016, property and equipment of \$31,525 was fully depreciated.

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 \$255,679 at December 31, 2016, 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 community management company which conducted a study in February 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. At December 31, 2016, the fair market value of the investments approximated the carrying value. Investments consisted of the following as of December 31, 2016:

	<u>Balance</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
6 - Month CD	\$91,337	February 28, 2017	0.400%
60 - Month CD	\$9,268	June 12, 2017	0.996%
60 - Month CD	\$30,380	November 16, 2019	0.450%

See Independent Accountant's Review Report

Starwood Association
Notes to Financial Statements – Continued
December 31, 2016

Note 7 - Interfund Balance

At December 31, 2016, the operating fund owed \$5,364 to the replacement fund.

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 September 7, 2017, 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, 2016

The Association engaged its management company who conducted a reserve study update without a site visit in February 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 1.50% and a rate of return on investments 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. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

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, 2016:

Current year's assessments	
Reserve assessments	\$ 32,496
Amount recommended by reserve study	<u>32,496</u>
Difference	\$ <u> -</u>
Replacement fund balance at end of year	\$ <u>255,679</u>

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

Expenditure	Quantity	Frequency In Years	Last Done	Nest Done	Cost/Unit	Cost in 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
Dogi-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