

**STARWOOD ASSOCIATION**

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**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2018**

**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 financial statements of Starwood Association, which comprise the balance sheet as of December 31, 2018, 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  
January 25, 2020



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**Starwood Association**  
**Balance Sheet**  
**December 31, 2018**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash, including interest bearing deposits	\$ 40,701	\$ 240,344	\$ 281,045
Investments	-	39,983	39,983
Assessments receivable, net of allowance for doubtful accounts of \$8,100	6,665	-	6,665
Prepaid insurance	3,193	-	3,193
Property and equipment, net of accumulated depreciation of \$37,125	10,401	-	10,401
Interfund balance	<u>(13,055)</u>	<u>13,055</u>	<u>-</u>
Total assets	<u>\$ 47,905</u>	<u>\$ 293,382</u>	<u>\$ 341,287</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Accounts payable	\$ 2,009	\$ -	\$ 2,009
Other accounts payable	5,661	-	5,661
Assessments received in advance	<u>6,874</u>	<u>-</u>	<u>6,874</u>
Total liabilities	14,544	-	14,544
Fund balance	<u>33,361</u>	<u>293,382</u>	<u>326,743</u>
Total liabilities and fund balance	<u>\$ 47,905</u>	<u>\$ 293,382</u>	<u>\$ 341,287</u>

See accompanying notes and independent accountant's review report.

**Starwood Association**  
**Statement of Revenues and Expenses**  
**For the Year Ended December 31, 2018**

	Operating Fund	Replacement Fund	Total
<b>REVENUES</b>			
Regular assessments	\$ 73,951	\$ 33,149	\$ 107,100
Interest	-	642	642
RV storage income	12,775	-	12,775
Other income	126	-	126
Total revenues	<u>86,852</u>	<u>33,791</u>	<u>120,643</u>
<b>EXPENSES</b>			
Property maintenance	3,606	-	3,606
Major repairs and replacements	-	16,401	16,401
RV storage expense	7,414	-	7,414
Utilities	2,245	-	2,245
Landscaping	18,169	-	18,169
Insurance	4,280	-	4,280
Management fees	23,186	-	23,186
Professional fees	9,251	-	9,251
Office expense	2,407	-	2,407
Licenses, permits and fees	50	-	50
Uncollectible fees	600	-	600
Depreciation	3,200	-	3,200
Other expense	31	-	31
Total expenses	<u>74,439</u>	<u>16,401</u>	<u>90,840</u>
Excess of revenues over expenses	<u>\$ 12,413</u>	<u>\$ 17,390</u>	<u>\$ 29,803</u>

See accompanying notes and independent accountant's review report.

**Starwood Association**  
**Statement of Changes in Fund Balance**  
**For the Year Ended December 31, 2018**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Fund balance, as of December 31, 2017	\$ 20,948	\$ 275,992	\$ 296,940
Excess of revenues over expenses	<u>12,413</u>	<u>17,390</u>	<u>29,803</u>
Fund balance, as of December 31, 2018	<u>\$ 33,361</u>	<u>\$ 293,382</u>	<u>\$ 326,743</u>

See accompanying notes and independent accountant's review report.

**Starwood Association**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2018**

	Operating Fund	Replacement Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess of revenues over expenses	\$ 12,413	\$ 17,390	\$ 29,803
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation expense	3,200	-	3,200
Interest earned on investments	-	(131)	(131)
Decrease (Increase) in assets:			
Assessments receivable, net of allowance for doubtful accounts	(2,007)	-	(2,007)
Prepaid insurance	1,087	-	1,087
Other prepaid expenses	1,374	-	1,374
Increase (Decrease) in liabilities:			
Accounts payable	357	-	357
Other accounts payable	(5,399)	-	(5,399)
Deposits	(1,000)	-	(1,000)
Assessments received in advance	2,805	-	2,805
Net cash provided by operating activities	12,830	17,259	30,089
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Maturity of investments	-	91,703	91,703
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Interfund balance	8,461	(8,461)	-
<b>NET INCREASE IN CASH</b>	21,291	100,501	121,792
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	19,410	139,843	159,253
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	\$ 40,701	\$ 240,344	\$ 281,045

See accompanying notes and independent accountant's review report.

**Starwood Association**  
**Notes to Financial Statements**  
**December 31, 2018**

**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, 2018. 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.

See Independent Accountant's Review Report



**Starwood Association**  
**Notes to Financial Statements – Continued**  
**December 31, 2018**

**Note 3 - Income Taxes**

Homeowner associations may be taxed either as homeowner associations or as nonexempt membership organizations. For the year ended December 31, 2018, 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 generally subject to federal and state examination for three years after they are filed.

**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 (RV) 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, 2018, property and equipment of \$47,526 consisted of fully depreciated RV Storage improvements, and a mower acquired in 2017.

**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 \$293,382 at December 31, 2018, 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 reserve study updated dated in October 2019 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, 2018, the fair market value of the investments approximated the carrying value. Investments consisted of the following as of December 31, 2018:

	<u>Balance</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
60 - Month CD	\$ 30,617	November 16, 2019	0.450%
60 - Month CD	\$ 9,366	June 12, 2022	0.450%

See Independent Accountant's Review Report

**Starwood Association**  
**Notes to Financial Statements – Continued**  
**December 31, 2018**

**Note 7 - Interfund Balance**

At December 31, 2018, the operating fund owed \$13,055 to the replacement fund.

**Note 8 - Other Accounts Payable**

The Association purchased a mower in May 2017 on a 36-month and 0% interest installment contract. At December 31, 2018, future monthly payments of \$409.75 remaining on the contract totaled \$5,661 and annual amounts to be paid are as follows:

2019	\$	4,917
2020	\$	744

**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 January 25, 2020, 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, 2018**

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The Association's Board of Directors conducted a reserve study update dated in October 2019 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from the Association's previous reserve study and vendor quotes. 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 2.00% for the road work and 1.50% for all other costs, and a rate of return on investments of less than 1.00%, without a provision for income taxes.

The Association intends to have a reserve study updated performed in the year 2020.

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, 2018:**

Current year's assessments	
Reserve assessments	\$ 33,149
Amount recommended by reserve study	<u>33,149</u>
Difference	\$ <u>-</u>
Replacement fund balance at end of year	\$ <u>293,382</u>

See Independent Accountant's Review Report

<b>EXPENDITURES FROM RESERVES</b>						
<b>Road Expense:</b>						
	Quantity/ Sq. Yds.	Cost/Unit in 2019	Total Est. Repl. Cost	Frequency (See note)	Last Done	Next Done (see note)
Slurry Seal Coat Roads						
Actual Cost	32,423	\$2.10	\$68,088.30	4	2019	2027
+ Add ons			\$11,500.00	4	2019	2027
+ Restripe			\$1,260.00	4	2019	2027
<b>Total Cost Slurry Seal</b>			<b>\$80,848.30</b>			
Crack Seal Coat Roads in Linear Ft.						
<b>Total Cost Crack Seal</b>	<b>14,395</b>	<b>\$0.65</b>	<b>\$9,356.75</b>	1	2019	2020
<b>Asphalt Overlay w Armour Rock - Every 20 yrs. TriCounty</b>						
	Quantity/ Sq. Yds.	Cost/Unit in 2019	Total Est. Repl. Cost	Frequency	Last Done	Next Done
<b>Total Cost Asphalt Overlay</b>	<b>32,423</b>	<b>\$5.98</b>	<b>\$194,000.00</b>	30	2003	2033
<b>Base Repair-cut out major cracks and build up base under persistent spots</b>	?????	?????	?????	?????	?????	?????
<b>Irrigation Expense:</b>						
	N/A	Original Cost	Total Est. Repl. Cost	Frequency	Last Done	Next Done
Irrigation Pipe		\$5,512.00	\$7,165.60	20	2008	2028
Pasture Pressurized Irrigation		\$33,189.00	\$43,145.70	20	2006	2026
Pond/Irrigation Sys Rehab (pasture)		\$1,706.00	\$2,217.80	20	2007	2027
Pond/Irrigation Sys Rehab (turf)		\$25,936.00	\$33,716.80	20	2009	2029
Pond Liner - Main Pond (see note)			\$59,985.00	20	never	2023
Pump, Driveway Turf Berkley 7.5hp		\$964.85	\$3,620.00	8	2015	2023
Pump, Pasture (field irrig) Jacuzzi 5hp		\$1,766.00	\$2,462.95	10	2017	2027
Pumphouse- Big Pond		\$2,000.00	\$2,900.00	30	2017	2047
Pumphouse-Front Entry		\$691.00	\$898.30	20	2011	2031
Pump-Front Entry Gould GT20 2hp			\$975.00	10	2018	2028
Turf Irrigation System		\$17,132.00	\$22,271.60	20	2011	2031
<b>Total Cost Irrigation</b>						
<b>Fencing Expense:</b>						
Fence Replacement (detail?)			\$28,013.00	30	2008	2038
<b>Other Property Expense:</b>						
	N/A	Original Cost	Total Est. Repl. Cost	Frequency	Last Done	Next Done
Basketball Court		\$2,993.00	\$3,890.90	20	2003	2023
Circle Trail (gravel)		\$2,680.00	\$2,881.00	5	2016	2021
Dog-I-Pot Stations (4)		\$1,436.00	\$1,866.80	20	2004	2024
Front Entry Signage, Landscape		\$5,089.00	\$7,379.05	30	2005	2035
Fire Fuels Reduction		\$18,000.00	\$19,890.00	5	2015	2020
Mail Boxes-Front		\$12,166.00	\$17,640.70	30	2007	2037
Mail Boxes- Center		\$16,500.00	\$23,925.00	30	2018	2048
Message Boards		\$530.00	\$689.00	20	2007	2027
Pasture Gates		\$656.00	\$1,049.60	40	1986	2026
Picnic Tables		\$1,401.00	\$1,821.30	20	2005	2025
Playground Sets		\$500.00	\$800.00	40	2003	2043
Storage Shed		\$7,580.00	\$10,991.00	30	2014	2044
Street Signs		\$5,000.00	\$7,250.00	30	2002	2032
Turf Rehab (1 section every 3 years)		\$2,689.00	\$2,810.01	3	2017	2020