

**ARRANMORE HOMEOWNERS' ASSOCIATION**

**YEAR ENDED DECEMBER 31, 2010  
AND TEN MONTHS ENDED DECEMBER 31, 2009**

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**C O N T E N T S**

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	<b>PAGE</b>
<b>Accountants' Report</b>	1
<b>Financial Statements</b>	
Balance Sheets	2
Statements of Revenues, Expenses and Changes in Fund Balance	3
Statements of Cash Flows	4
Notes to Financial Statements	5-8
<b>Supplementary Information to Financial Statements</b>	
Supplementary Information on Future Major Repairs and Replacements	9

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## INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Board of Directors  
Arranmore Homeowners' Association  
Portland, Oregon

We have compiled the accompanying balance sheets of ARRANMORE HOMEOWNERS' ASSOCIATION as of December 31, 2010, and 2009, and the related statements of revenues, expenses and changes in fund balance and statements of cash flows for the periods then ended, and the accompanying supplementary information contained on page 8, which is presented only for supplementary analysis purposes. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether these financial statements are in accordance with accounting principles generally accepted in the United States of America.

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 compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

*Jack W. Olds & Company LLP*

March 1, 2011

**ARRANMORE HOMEOWNERS' ASSOCIATION**

**BALANCE SHEETS  
DECEMBER 31, 2010 AND TEN MONTHS ENDED DECEMBER 31, 2009**

	<u>December 31, 2010</u>			<u>December 31, 2009</u>		
	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total</u>	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total</u>
<b><u>ASSETS</u></b>						
<b>CURRENT ASSETS:</b>						
Cash, checking	\$ 3,150	\$ -	\$ 3,150	\$ 705	\$ -	\$ 705
Cash, interest bearing	61,676	99,551	161,227	90,197	75,306	165,503
Assessments receivable	11,116	1,800	12,916	7,274	1,410	8,684
Allowance for doubtful accounts	(6,650)	(1,350)	(8,000)	(6,650)	(1,350)	(8,000)
Interfund	19,493	(19,493)	-	(132)	132	-
Deposits	-	14,780	14,780	-	-	-
Prepaid insurance	722	-	722	722	-	722
Total current assets	<u>89,507</u>	<u>95,288</u>	<u>184,795</u>	<u>92,116</u>	<u>75,498</u>	<u>167,614</u>
<b>FACILITIES AND EQUIPMENT:</b>						
Recreational facilities	-	225,353	225,353	-	217,920	217,920
Recreational equipment	-	2,142	2,142	-	2,142	2,142
Landscaping	-	2,258	2,258	-	2,258	2,258
Pathways	-	18,173	18,173	-	-	-
Irrigation well and equipment	-	78,149	78,149	-	73,228	73,228
	-	326,075	326,075	-	295,548	295,548
Less accumulated depreciation	-	255,537	255,537	-	249,250	249,250
	-	70,538	70,538	-	46,298	46,298
	<u>\$ 89,507</u>	<u>\$ 165,826</u>	<u>\$ 255,333</u>	<u>\$ 92,116</u>	<u>\$ 121,796</u>	<u>\$ 213,912</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>						
<b>CURRENT LIABILITIES:</b>						
Accounts payable	\$ 2,500	\$ -	\$ 2,500	\$ 2,989	\$ -	\$ 2,989
Unearned assessments	28,273	5,469	33,742	28,273	5,469	33,742
Total current liabilities	<u>30,773</u>	<u>5,469</u>	<u>36,242</u>	<u>31,262</u>	<u>5,469</u>	<u>36,731</u>
<b>FUND BALANCE</b>	<u>58,734</u>	<u>160,357</u>	<u>219,091</u>	<u>60,854</u>	<u>116,327</u>	<u>177,181</u>
	<u>\$ 89,507</u>	<u>\$ 165,826</u>	<u>\$ 255,333</u>	<u>\$ 92,116</u>	<u>\$ 121,796</u>	<u>\$ 213,912</u>

See accountants' compilation report  
See notes to financial statements

**ARRANMORE HOMEOWNERS' ASSOCIATION**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE  
YEAR ENDED DECEMBER 31, 2010 AND TEN MONTHS ENDED DECEMBER 31, 2009**

	December 31, 2010			December 31, 2009		
	Operating Fund	Capital Fund	Total	Operating Fund	Capital Fund	Total
<b>REVENUES</b>						
Membership assessment, annual fee	\$ 166,309	\$ 32,175	\$ 198,484	\$ 138,036	\$ 26,706	\$ 164,742
Investment income	818	321	1,139	1,318	1,096	2,414
Miscellaneous income	2,549	-	2,549	390	550	940
Total revenues	<u>169,676</u>	<u>32,496</u>	<u>202,172</u>	<u>139,744</u>	<u>28,352</u>	<u>168,096</u>
<b>OPERATING EXPENSES</b>						
Administrative:						
Insurance	2,091	-	2,091	1,429	-	1,429
Legal and accounting	3,587	-	3,587	5,399	-	5,399
Newsletter	265	-	265	184	-	184
Office operations	532	-	532	199	-	479
Other	2,215	-	2,215	970	-	690
Total administrative	<u>8,690</u>	<u>-</u>	<u>8,690</u>	<u>8,181</u>	<u>-</u>	<u>8,181</u>
Landscape:						
Maintenance contract	77,000	-	77,000	65,794	-	65,794
Depreciation	-	4,242	4,242	-	893	893
New plantings	881	7,179	8,060	861	-	861
Repairs and maintenance	35,574	-	35,574	14,826	-	14,826
Water systems operations	3,981	-	3,981	4,600	-	4,600
Total landscape	<u>117,436</u>	<u>11,421</u>	<u>128,857</u>	<u>86,081</u>	<u>893</u>	<u>86,974</u>
Recreational center:						
Other	141	-	141	142	-	142
Depreciation	-	2,045	2,045	-	1,673	1,673
Pool operations	9,078	-	9,078	10,305	-	10,305
Repairs and maintenance	2,738	-	2,738	135	-	135
Utilities	8,713	-	8,713	9,255	-	9,255
Total recreational center	<u>20,670</u>	<u>2,045</u>	<u>22,715</u>	<u>19,837</u>	<u>1,673</u>	<u>21,510</u>
<b>TOTAL OPERATION EXPENSES</b>	<u>146,796</u>	<u>13,466</u>	<u>160,262</u>	<u>114,099</u>	<u>2,566</u>	<u>116,665</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	22,880	19,030	41,910	25,645	25,786	51,431
FUND BALANCE, beginning of year	60,854	116,327	177,181	35,209	90,541	125,750
FUND TRANSFERS	<u>(25,000)</u>	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 58,734</u>	<u>\$ 160,357</u>	<u>\$ 219,091</u>	<u>\$ 60,854</u>	<u>\$ 116,327</u>	<u>\$ 177,181</u>

See accountants' compilation report  
See notes to financial statements

**ARRANMORE HOMEOWNERS' ASSOCIATION**

**STATEMENTS OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2010 AND TEN MONTHS ENDED DECEMBER 31, 2009**

	<u>December 31, 2010</u>			<u>December 31, 2009</u>		
	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total</u>	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Excess of revenues over expenses	\$ 22,880	\$ 19,030	\$ 41,910	\$ 25,645	\$ 25,786	\$ 51,431
Adjustments to reconcile excess of revenues over expenses to net cash provided by (used for) operating activities:						
Depreciation and amortization	-	6,287	6,287	-	2,566	2,566
Gain on sale of equipment	-	-	-	-	(550)	(550)
Decrease (increase) in prepaid insurance	-	-	-	(722)	-	(722)
Decrease (increase) in accounts receivable	(3,842)	(390)	(4,232)	62,025	11,965	73,990
Decrease (increase) in deposits	-	(14,780)	(14,780)	-	-	-
Increase (decrease) in accounts payable	(489)	-	(489)	(7,352)	-	(7,352)
Increase (decrease) in unearned assessments	-	-	-	<u>(138,036)</u>	<u>(26,706)</u>	<u>(164,742)</u>
Net cash provided by (used for) operating activities	<u>18,549</u>	<u>10,147</u>	<u>28,696</u>	<u>(58,440)</u>	<u>13,061</u>	<u>(45,379)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchase of irrigation system equipment	-	(4,920)	(4,920)	-	-	-
Repairs to swimming pool/spa	-	(7,434)	(7,434)	-	(33,463)	(33,463)
Purchase of landscaping items	-	(18,173)	(18,173)	-	(2,258)	(2,258)
Proceeds from sale of pump	-	-	-	-	550	550
Net cash provided by (used for) investing activities	<u>-</u>	<u>(30,527)</u>	<u>(30,527)</u>	<u>0</u>	<u>(35,171)</u>	<u>(35,171)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Interfund transfers	(25,000)	25,000	-	-	-	-
Interfund borrowings	(19,626)	19,626	-	(21,243)	21,243	-
Net cash provided for (used for) financing activities	<u>(44,626)</u>	<u>44,626</u>	<u>-</u>	<u>(21,243)</u>	<u>21,243</u>	<u>-</u>
<b>NET CASH INCREASE (DECREASE)</b>	(26,077)	24,246	(1,831)	(79,683)	(867)	(80,550)
CASH, beginning of period	<u>90,902</u>	<u>75,306</u>	<u>166,208</u>	<u>170,585</u>	<u>76,173</u>	<u>246,758</u>
<b>CASH, end of period</b>	<u>\$ 64,825</u>	<u>\$ 99,552</u>	<u>\$ 164,377</u>	<u>\$ 90,902</u>	<u>\$ 75,306</u>	<u>\$ 166,208</u>

See accountants' compilation report  
See notes to financial statements

## ARRANMORE HOMEOWNERS' ASSOCIATION

### NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2010 AND TEN MONTHS ENDED DECEMBER 31, 2009

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#### 1. Summary of Significant Accounting Policies

##### **Organization**

The Arranmore Homeowners' Association was incorporated in January 1978, under the Oregon Non-Profit Corporation Law for the purpose of maintenance, preservation and architectural control of the residents' lots and common areas within the Arranmore Project. The Association was formalized with the first general meeting held August 2, 1979. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of 143 residential units located in Portland, Oregon.

##### **Date of Management's Review**

Management has evaluated subsequent events through March 1, 2011, the date on which the financial statements were available to be issued.

##### **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.

Capital Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements.

##### **Member Assessments**

Association members are subject to annual 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 represent fees due from homeowners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are 90 days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year.

##### **Assessments Receivable**

Assessments receivable are reported at the amount the association expects to collect from outstanding balances. Differences between the amount due and the amount the association expects to collect are reported in the results of operations as bad debt expense in the year in which those differences are determined, with an offsetting entry to a valuation allowance for accounts receivable. Balances that are still outstanding after the association has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

As of December 31, 2010, assessments receivable over 90 days past due are \$10,744.

**ARRANMORE HOMEOWNERS' ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2010 AND TEN MONTHS ENDED DECEMBER 31, 2009**

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**1. Summary of Significant Accounting Policies (continued)**

**Management 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.

**Facilities, Equipment and Depreciation**

Recreational facilities, common landscaping, and the irrigation well and equipment are stated at cost and have been depreciated using the straight-line method over the estimated useful life of the related assets, ranging from 3 to 50 years.

**Capitalization of Expenditures**

A capital expenditure is defined as one that has a \$2,000 minimum value and an expected useful life of at least 3 years. Expenditures that can be reasonably made from the operating budget will be excluded as a capital expenditure. This includes ordinary repairs made to maintain assets in proper operating condition. Preventative maintenance, normal periodic repairs, replacement of parts, and other activities such as tree trimming, cleaning, or interior repainting that are needed to maintain the asset so that it continues to provide normal service or appearance is charged as an operating expense. Major repairs are relatively large expenditures (\$2,000 or more) that materially extend the useful life of an asset, or improve its efficiency or appearance. These expenditures are considered as an addition, improvement, or replacement and charged as a capital expenditure.

**Cash Equivalents**

For purposes of the statements of cash flows, the Association considers all investments purchased with a maturity of three months or less to be cash equivalents.

**Concentration of Credit Risk**

Assessments receivable consist of membership assessments and fees due from homeowner members. All property assessed by the Association is located exclusively in the Southwest Portland, OR area.

The Association manages its risk exposure by maintaining cash balances at FDIC insured institutions in amounts below the \$250,000 insured limits.

**Donated Time and Services**

No amounts have been recognized in the accompanying financial statements for time and services donated to the Association, since amounts are not susceptible to objective measurement or valuation.



## ARRANMORE HOMEOWNERS' ASSOCIATION

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED DECEMBER 31, 2010 AND TEN MONTHS ENDED DECEMBER 31, 2009

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#### 1. Summary of Significant Accounting Policies (continued)

##### Revenue Recognition

The Association's operating cycle is a twelve month period from March 1 to February 28. Revenue from homeowners' assessments is recognized in the period earned. It is the practice of the Association to submit invoices to the homeowners 30 to 45 days in advance of the March 1 due date.

#### 2. Capital Fund

In 2004 the Board of Directors acknowledged the need to provide for future repairs and replacements of the Association's facilities. To accommodate this objective, the board authorized a continuing regular annual assessment of \$225 to each homeowner. These funds are to be held in a segregated account specifically for future major repairs and replacements of the Association's facilities.

The Board of Directors has engaged an outside consulting firm to provide an estimate of the remaining useful lives and the replacement costs of the common property components. The analysis of future major repairs and replacements serves as a guideline in establishing the balance to be maintained in the capital fund. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the capital fund may not be adequate to meet future needs.

#### 3. Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2010, the Association was taxed as a regular corporation and filed Form 1120. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its nonmembership income, such as interest earnings, at regular federal and state corporate rates. The Association adopted the new accounting for uncertainty in income tax guidance, which clarifies the accounting and recognition for tax positions taken or expected to be taken in its income tax returns. The Association's tax filings are subject to audit by various taxing authorities. The Association's federal and state tax returns for 2008, 2009 and 2010 remain open to examination. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

## ARRANMORE HOMEOWNERS' ASSOCIATION

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED DECEMBER 31, 2010 AND TEN MONTHS ENDED DECEMBER 31, 2009

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#### **4. Future Major Repairs and Replacements**

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$99,551 at December 31, 2010, are held in separate accounts and are generally not available for operating purposes.

The Association engaged an independent consultant who conducted a study in 2010 to estimate the remaining useful lives and the replacements costs of the common property components. 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, however, actual useful lives and actual future expenditures 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, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

#### **5. Changes In Reporting Period**

The Association previously reported operations on a twelve month operating cycle ending February 28. At a meeting of the Board of Directors on January 11, 2010 a motion was presented and passed to change the Association's year end to December 31. As a result, the current reporting cycle consists of a twelve month period ending December 31, 2010 and the prior reporting cycle consists of the a ten month period ended December 31, 2009.

#### **6. Change In Accounting Estimate**

The Association changed its policy of capitalizing costs of plants and trees. Instead of capitalizing the cost and charging the cost to expense over an estimated useful life, all such costs are to be treated as maintenance expenses in the year incurred. The year ended December 31, 2010 includes additional depreciation expense of \$2,148 to accommodate this accounting policy change.

**ARRANMORE HOMEOWNERS' ASSOCIATION**

**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2010**

The Association's board of directors engaged consultants in December 2010 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated current costs to repair or replace the common property components at the date of the study. The Bylaws of the Association do not require funding of the estimated future replacement costs. Estimated current replacement costs in the schedule shown below have not been revised, since the April 2009 study, to fully conform to the latest study, completed in December 2010 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 following information is based on the board's estimates and presents significant information about the components of common property:

	<b><u>Average Estimated Useful Lives (Years)</u></b>	<b><u>Estimated Remaining Useful Lives (Years)</u></b>	<b><u>Estimated Current Replacement Costs</u></b>
Irrigation system	50	32	\$ 120,000
Irrigation well casing and pumps	15	12	16,000
Landscaping	5	1	40,000
Pool deck, spa and pumps	10	2	30,000
Recreation center building	50	33	210,000
Pathways	30	7	<u>75,000</u>
			<u>\$ 491,000</u>